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Ratings

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Summary:

South Lake Tahoe, California; Appropriations; General Obligation

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Credit Profile		
US$11.5 mil lse rev rfdg bnds ser 2016A due 10/01/2025		
Long Term Rating	AA-/Stable	New
South Lake Tahoe taxable pension oblig bnds		
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) certs of part		
Long Term Rating	AA-/Stable	Affirmed
South Tahoe Jt Pwrs Fing Auth rfdg lse rev bnds ser 2006A		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA-' rating to South Tahoe Joint Powers Financing Authority, Calif.'s lease revenue refunding bonds, 2016 series A, issued on behalf of South Lake Tahoe, Calif. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on the authority's series 2006A lease revenue bonds, series 2012 appropriation debt, and pension obligation bonds (POBs), issued on behalf of the city.

The lease revenue refunding bonds and existing appropriation debt 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. The city has covenanted to budget and appropriate base rental payments to meet its obligations under the lease agreements supporting the lease revenue bonds. The leases are subject to abatement in the event of damage to or the destruction of the leased asset, although the city has covenanted to obtain rental interruption insurance sufficient to pay 24 months' lease payments. The leased assets meet our minimum threshold for seismic risk during the life of the bonds. 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 POBs are secured by any legally available moneys of the city. The POBs were issued to refund the outstanding "side fund" obligations of the city to the California Public Employees' Retirement System with respect to the city's Safety Plan.

The ratings reflect our view of the following factors:

- 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 (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 52% of operating expenditures;
- Very strong liquidity, with total government available cash at 65.8% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 10.7% of expenditures and net direct debt that is 227.8% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider South Lake Tahoe's economy very strong. The city, with an estimated population of 20,473, is located in El Dorado County in the Sacramento-Roseville-Arden-Arcade, Calif. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 88.0% of the national level and per capita market value of $199,687. Overall, the city's market value grew by 4.7% over the past year to $4.1 billion in 2016. The county unemployment rate was 5.7% in 2015.

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. The economy has continued to strengthen over the past few years, with growth reported in the city's assessed value in each of the past four fiscal years since the great recession. Management projects this growth to continue over the next few years in light of the continued demand for the city's tourism activities as well as the continued commercial developments within the city.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA 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 tax, and transient occupancy taxes (TOT); quarterly presentations of the city's budget-to-actuals to 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 once a year; the maintenance of a formal investment policy with investment results reported to 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.

Adequate budgetary performance

South Lake Tahoe's budgetary performance is adequate in our opinion. The city had surplus operating results in the general fund of 14.7% of expenditures, but a deficit result across all governmental funds of 12.1% in fiscal 2015.

Each of the city's major revenue streams--including TOT, sales tax, and property tax revenues--has experienced a growth trend. We note that the operating deficit in the city's total governmental funds is due primarily to spending from the city's capital projects fund and is not a structural deficit, in our view. Going forward, management projects that the city will continue to experience operating surpluses in light of the growing economy and continued demand for the city's tourism activities. We note that the city also plans to go to voters to increase its TOT rate to 14% from 12%. The city also plans to ask voters to increase its sales tax rate by 0.5%, to 8.5% total, in November 2016. For fiscal 2016, the city expects to draw down its available general fund balance by $3.7 million, although this projected deficit is due primarily to a planned transfer of $4.2 million of surplus funds in the general fund to the capital projects fund.

Very strong budgetary flexibility

South Lake Tahoe's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 52% of operating expenditures, or $16.8 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has maintained very strong available general fund balances levels over the past few years, in compliance with its general fund reserve policy of 25% of expenditures at a minimum. In light of the city's growing economy, we do not expect the city's flexibility score to weaken over the next few years. We note that the city plans to transfer roughly $4.2 million of its available general fund balance to the capital expenditures fund. Despite the transfer, the city's available fund balance will still remain above 30% of expenditures.

Very strong liquidity

In our opinion, South Lake Tahoe's liquidity is very strong, with total government available cash at 65.8% of total governmental fund expenditures and 6.1x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary. The city has accessed the credit markets with several issuances of bonds within the past 20 years.

The city has maintained very strong liquidity levels over the past few years. Given the city's access to external liquidity over the past few years as well as the city's recent positive trends in its major revenue streams, we do not expect the city's liquidity score to worsen. The city's investments are primarily held in the Local Agency Investment Fund, money market funds, and federal government securities. We believe these investments are conservative.

Very weak debt and contingent liability profile

In our view, South Lake Tahoe's debt and contingent liability profile is very weak. Total governmental fund debt service is 10.7% of total governmental fund expenditures, and net direct debt is 227.8% of total governmental fund revenue.

The city has four issues of general fund debt outstanding as well as three series of debt supported by the city's successor agency. The city does not have any immediate plans to issue additional debt. We note that the city does not have any variable-rate outstanding.

South Lake Tahoe's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 9.0% of total governmental fund expenditures in 2015. Of that amount, 6.6% represented required contributions to pension obligations, and 2.4% represented OPEB payments. The city made its full annual required pension contribution in 2015.

We note that the city has reduced its other postemployment benefits in recent years, including eliminating all retiree health benefits for employees not retired as of Sept. 30, 2014. This has reduced the city's outstanding OPEB liability. The city continues to make its OPEB annual payments on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for California municipalities required to submit a federal single audit is strong.

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 we expect will persist over the near term. Therefore, we do not expect to change the ratings within the two-year outlook time frame.

Upside scenario

If the city's debt score or budgetary performance score improves and if its major revenue streams continue their upward trend despite its reliance on the tourism industry, we could raise the ratings.

Downside scenario

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: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Standard & Poor's Earthquake Model, Oct. 25, 2012
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

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 www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.