STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

June 20, 2012

Summary:
South Tahoe Joint Powers Financing Authority, California South Lake Tahoe; Appropriations

Primary Credit Analyst:
Jennifer Hansen, San Francisco (1) 415-371-5035; jen_hansen@standardandpoors.com

Secondary Contact:
Alda Mostofi, CFA, San Francisco (1) 415-371-5061; alda_mostofi@standardandpoors.com

Table Of Contents

Summary:

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

Credit Profile		
US$6.08 mil certs of part (South Lake Tahoe) ser 2012 due 09/01/2042		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to South Tahoe Joint Powers Financing Authority, Calif.'s series 2012 certificates of participation, issued for South Lake Tahoe. At the same time, Standard & Poor's affirmed its 'AA-' underlying rating (SPUR) on the city's series 2006A lease revenue bonds outstanding. The outlook is stable.

The ratings reflect our view of:

- South Lake Tahoe's extremely strong market value per capita;
- The city's strong reserves, which have been maintained well in excess of management's 25%-of-expenditures reserve policy;
- Voter support to increase the city's business tax, which will bring an additional $250,000 of general fund revenue; and
- The city's moderate debt burden.

Partially offsetting these strengths, in our view, are the city's:

- Adequate, but below-average, incomes, and
- Continued, although decreased, reliance on tourism to support general fund operations, given that transient occupancy tax (TOT) revenues are the second- largest component of the city's general fund (down from the largest component).

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. Bond proceeds will be used to fund road improvements.

South Lake Tahoe is located in El Dorado County at the southwest corner of Lake Tahoe, adjacent to the Nevada state line, approximately 150 miles northeast of San Francisco and 80 miles east of Sacramento. The city encompasses approximately nine square miles. One of the most popular ski areas in the western U.S., Heavenly Valley, is located adjacent to the city, yet 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 the City of South Lake Tahoe, does, however, receive 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 but average approximately 20 feet a year. The unpredictability of snowfall introduces the risk of volatile tourism (and revenue) trends, particularly during the winter ski season. Major employers in the city include Barton Memorial Hospital, Lake Tahoe Unified School District, Marriott Corporation, Lake Tahoe Community College, and El Dorado County. Heavenly Ski Resort is one of the largest in the Tahoe area.

The city's population has been slowly declining at a 0.8% annual rate since 2000 to about 21,343 in 2012. After several years of very strong growth, assessed valuation has declined during the past two years, by 8.3% and 2.6%, to $3.9 billion in 2012. However, despite the declines, market value per capita continues to be extremely strong, in our view, at $187,000. The city's per capita income is adequate, in our opinion, at 86% of the national average. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for only 8% of market value.

Despite three years of general fund drawdowns, the city's financial position continues to be very strong, in our view. Available (assigned and unassigned) reserves continue to exceed 40% of expenditures through fiscal 2011 and are higher than the city's 25% reserve policy. Property tax and TOT revenues are the leading sources of total general revenue, accounting for 22% and 17% of general fund revenues, respectively, in fiscal 2011. Sales tax revenues accounted for 13% of general fund revenues in fiscal 2011 and are up 6% from the prior year after three years of declines averaging 8% annually. In fiscal 2011, the unassigned and assigned fund balance in the general fund was $10.6 million, or 41.8% of expenditures, which we consider very strong. For fiscal 2012, which ends Sept. 30, the city projects that it will end the year with a $9.8 million unassigned fund balance. The city has created a five-year financial plan that has helped it to close a large budget gap due to revenue declines and rising employee costs. Since 2009, the city has reduced full-time staffing by 27% and established a fiscal sustainability committee. The city has also changed its health benefit plans, and moving forward all employees will pay 50% of any increase to plan costs.

We have updated the city's financial management practices to "strong" from "good" under our Financial Management Assessment (FMA) methodology, reflecting our view of the city's institution of a five-year rolling capital improvement plan that identifies funding sources. An FMA of "strong" indicates our view that practices are strong, well embedded, and likely sustainable. For example, the city has a detailed debt management policy that contemplates variable-rate indebtedness under some circumstances, presents investment reports regularly to the city council, and updates a five-year financial plan semiannually, and its financial assumptions include third-party information sources. The city prepares a capital plan on an annual basis as part of the budget process, but has no standalone or longer-term document or process in place. Budget adjustments may occur at any time throughout the year as the need arises. We understand that the city intends its 25%-of-expenditures reserve policy to mitigate volatility in general fund revenue sources that are economically sensitive, namely TOT and sales taxes.

Overall, combined direct and overlapping debt is moderate, in our opinion, at 2.6% of market value and $4,816 per capita. We understand that the city plans to issue an additional $5 million annually during the next four years to fund its capital improvement program. Even with these additional issuances, debt levels will remain moderate, in our opinion.

City employees participate in the California Public Employees' Retirement System, and the city has fully funded its annual required contribution during the last three fiscal years and paid $3.4 million in fiscal 2011. The city recently negotiated with its employees, and employees now pay their share of retirement costs. As of its Sept. 30, 2010 actuarial valuation, the city's other postretirement employee benefit liability stood at approximately $48 million, with an unfunded liability of $44 million according to the June 30, 2011 audit. The city began fully funding its obligation in fiscal 2010 and paid $2.2 million in fiscal 2011.

Outlook

The stable outlook reflects our anticipation that the city will maintain reserves at or near current levels given its reliance on tourism and related revenues such as TOT and sales taxes. If the city is unable to bring its budget back into balance as it has projected and draws down reserves to below 25% of expenditures, we could lower the ratings. We do not expect to raise the ratings during the two-year outlook timeframe.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of June 20, 2012)		
South Tahoe Jt Pwrs Fing Auth, California		
South Lake Tahoe, California		
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.		

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.