

RatingsDirect®

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) Tax alloc bnds (Proj Area #1)

Long Term Rating

BBB-/Stable

Downgraded, Removed from
CreditWatch

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

Long Term Rating

BBB-/Stable

Downgraded, Removed from
CreditWatch

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

Unenhanced Rating

BBB-(SPUR)/Stable

Downgraded, Removed from
CreditWatch

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

Unenhanced Rating

BBB-(SPUR)/Stable

Downgraded, Removed from
CreditWatch

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services lowered to 'BBB-' from 'BBB+' its long-term rating and underlying rating (SPUR) on the South Tahoe Joint Powers Financing Authority, Calif.'s tax increment revenue bonds, issued for the South Tahoe Redevelopment Agency (RDA). Standard & Poor's also removed the ratings from CreditWatch with negative implications, where they were placed on July 6, 2012. The outlook is stable.

The rating action reflects recent declines in the project area's assessed value (AV) which increased the agency's reliance on pledged transit occupancy tax (TOT) revenue to make debt service payments. The CreditWatch action reflects our view of the agency's ability to make its uneven semiannual debt service payments from cash available from TOT revenue and the redevelopment property tax trust fund (RPTTF).

The ratings reflect our view of:

- The project area's continued downward trend in AV, with AV dropping 15% in fiscal 2013;
- The project area's concentrated tax base, with the top 10 taxpayers making up 50% of incremental AV; and
- The county auditor controller's withholding of approximately \$1.5 million from the successor agencies' January

2013 RPTTF disbursement.

In our opinion, these credit factors are somewhat tempered by adequate annual debt service coverage of 1.29x based on 2013 AV and estimated TOT revenue.

The bonds are secured by a double-barrel, first-lien pledge on tax increment and TOT revenue generated in the project area. The debt service is first paid using tax increment revenue, less low- and moderate-income housing set-aside and certain pass-throughs, generated in the project area. If tax increment revenue is not sufficient to make the full debt service payment, then TOT revenue generated in the project area is used to pay the remainder of debt service. Based on fiscal 2013 AV, the agency would cover 71% of the maximum annual debt service (MADS) amount if it had been remitted the full amount of TI revenue generated by the project area.

South Lake Tahoe opted to become the successor agency to the former South Lake Tahoe RDA under Assembly Bill (AB) 1x26, which dissolved RDAs. After the passage of AB 1484, Standard & Poor's placed all investment-grade redevelopment agency debt on CreditWatch with negative implications, primarily because of potential cash flow risks arising from provisions in AB 1484. After receiving information from the county auditor-controller and the successor agency, we believe that provisions in AB 1484 will not significantly impair the agency's ability to make semiannual debt service payments, and are thus removing the tax increment revenue bonds from CreditWatch. However, while reviewing details regarding the Jan. 2, 2013 disbursement made to the successor agency, we became aware of the one-time negative adjustment made by the county auditor-controller to the successor agency's disbursement of approximately \$1.5 million. The county auditor-controller made this adjustment for repayment of amounts that were previously disbursed to the agency because of the Teetering of revenue from property that was appealing its AV. The California Department of Finance is allowing the successor agency to maintain \$1.6 million of its low- and moderate-income housing fund assets so that this adjustment will not hinder the agency's ability to make its semiannual debt service payment.

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 4 million visitors annually and has more than 3,000 hotel, motel, and timeshare units. The project area is primarily residential, with 53.6% of 2013 AV coming from residential parcels and the remainder of AV coming from commercial parcels.

The project area continued its downward trend in AV in fiscal 2013, with AV dropping by 15%. Since peaking in fiscal 2010 at \$918 million AV, has declined by 34% and is currently \$596 million. The steep declines have come from successful AV appeals by timeshares and stalled development projects during the property market's downturn. The project area's tax base is, in our opinion, highly concentrated, with 50.4% of incremental AV coming from the top 10 taxpayers and the top taxpayer, First American Trust, making up 12.9% of fiscal 2013 incremental AV.

The declines in AV and, accordingly the tax increment revenue generated by the project area, have increased the project area's reliance on TOT revenue for the payment of debt service. In fiscal 2010 TOT revenue covered only 2% of MADS, but in fiscal 2013 this percentage reached 29%. Although TOT revenue has fluctuated in recent years, it has not been as volatile as tax increment revenue and totaled a little more than \$4 million last year. Management anticipates that TOT revenue for the remainder of fiscal 2013 will be higher than in the prior-year period because of both better snowfall attracting more winter tourists and increased tourism in general. Although in recent years TOT

revenue has been less volatile than tax increment revenue, this is more a characteristic of the exceptional AV declines in the project area than the stability of TOT revenue, which we consider to be sensitive to fluctuations because of its dependence on tourism and the concentration of hotels generating this revenue. According to our estimates of TOT and tax increment revenue, the project areas can cover MADS by 1.29x in 2013.

Outlook

The stable outlook reflects our anticipation that pledged TOT revenue will be able to support the remainder of debt service not paid from tax increment revenue even if AV were to continue to decrease during the next two years. If TOT revenue were to dip or AV were to continue to decline steeply, then we may further lower rating on the tax increment revenue bonds. However, if TOT revenue were to increase or remain stable, coupled with AV bouncing back to previous levels, we could raise the ratings.

Related Criteria And Research

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

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