



One California Street, 31st Floor
San Francisco, CA 94111-5432
tel 415 371-5000
reference no.: 1368344

November 25, 2014

South Lake Tahoe
1901 Airport Road, Suites 203 & 210
South Lake Tahoe, CA 96150
Attention: Ms. Nancy Kerry, City Manager

Re: *US\$11,720,000 City of South Lake Tahoe, California, Taxable Pension Obligation Bonds, Series 2014, dated: Date of delivery, due: September 01, 2026*

Dear Ms. Kerry:

Pursuant to your request for a Standard & Poor's Ratings Services ("Ratings Services") rating on the above-referenced obligations, Ratings Services has assigned a rating of "AA-". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:

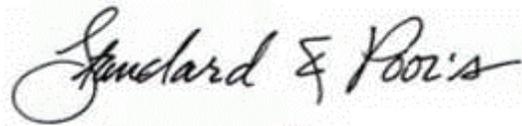
Standard & Poor's Ratings Services
Public Finance Department
55 Water Street

New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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Sincerely yours,

A handwritten signature in black ink that reads "Standard & Poor's". The signature is written in a cursive, flowing style.

Standard & Poor's Ratings Services

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enclosures

cc: Mr. Mark Carlson
Mr. Samuel Becerra



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Summary:

South Lake Tahoe, California; Appropriations; General Obligation

Primary Credit Analyst:

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Jaime B Trejo, San Francisco (415) 371-5033; jaime.trejo@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

South Lake Tahoe, California; Appropriations; General Obligation

Credit Profile

US\$11.72 mil taxable pension oblig bnds ser 2014 due 09/01/2026

Long Term Rating

AA-/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to South Lake Tahoe, Calif.'s 2014 taxable pension obligation bonds (POBs). At the same time, Standard and Poor's affirmed its 'AA-' long-term rating and underlying rating (SPUR) on South Tahoe Joint Powers Financing Authority's series 2006A lease revenue bonds and series 2012 appropriation debt outstanding, issued on behalf of the city.

The POBs are secured by any legally available moneys of the city. The POBs are being issued to refund the outstanding "side fund" obligations of the city to the California Public Employees' Retirement System (CalPERS) with respect to the city's Safety Plan.

The outstanding lease revenue 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.

The ratings reflect our assessment of the following factors for the city:

- Strong local economy, with projected per capita income at 96.6% of the nation and market value at \$184,000;
- Very strong financial management with strong financial practices under our Financial Management Assessment (FMA) methodology;
- Very strong budgetary flexibility, with reserves over 40% of expenditures;
- Adequate budgetary performance, with a reliance on transient occupancy taxes (TOTs) and tourism industry, which we believe could lead to significant performance volatility;
- Very strong liquidity; and
- Very weak debt and contingent liabilities profile, with high pension and other postemployment benefit (OPEB) costs.

Strong economy

We consider South Lake Tahoe's local economy strong, with projected per capita income at 96.6% of the national level. Market value per capita is roughly \$184,000. South Lake Tahoe serves a population of about 21,000 in El Dorado County, approximately 150 miles northeast of San Francisco and 80 miles east of Sacramento. 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. According to the Bureau of Labor Statistics, El Dorado County's unemployment rate was 8.6% in 2013. Residents also benefit from the city's participation in the broad and diverse Sacramento-Roseville-Arden-Arcade metropolitan statistical area.

Very strong management conditions

We changed South Lake Tahoe's management conditions to very strong from strong, with "strong" financial practices under our FMA methodology, indicating financial practices exist in all areas and that they are formalized and likely to continue. The change is based on our review of the city's five-year capital plan, which is updated annually.

Very strong budgetary flexibility

In our opinion, budgetary flexibility is very strong, with available, unassigned general fund reserves of \$12.1 million, or 40.6% of operating expenditures, in fiscal 2013. For fiscal 2014, management estimates that reserves will remain the same and in excess of 20% of expenditures. In addition, we understand officials do not currently plan to spend down accumulated reserves significantly.

Adequate budgetary performance

In our view, overall budgetary performance is adequate, with a 4.5% general fund surplus and a 10.6% surplus reported across all governmental funds in fiscal 2013 after adjusting for transfers and nonrecurring capital and debt service expenditures. Based on the city's projections, we expect performance will remain adequate, with an expected 0.1% operating surplus and a 0.2% surplus across all governmental funds in fiscal 2014. In conjunction with the city's dependence on the tourism industry, the city has become heavily reliant on TOTs and sales taxes. In our view, this is a negative credit factor because the TOTs and tourism industry could lead to significant performance volatility.

Very strong liquidity

Supporting South Lake Tahoe's finances is very strong liquidity, in our opinion, with total government available cash of 56.6% of total governmental fund expenditures and well in excess of 100% of debt service expenditures in fiscal 2013. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs, if necessary.

Very weak debt and contingent liabilities profile

In our opinion, the city's debt and contingent liabilities profile is very weak, with total governmental funds debt service at 6.2% of total governmental funds expenditures and net direct debt at 157.8% of total governmental funds revenue. Overall net debt is moderately high, in our view, at 6.2% of market value, and principal amortization is slower than average, with approximately 30.3% scheduled to be repaid within the next 10 years. We understand that city officials do not expect to issue additional debt during the next two years.

South Lake Tahoe contributes to CalPERS, and it has contributed 100% of its annual required contribution (ARC) in each of the past three audited fiscal years. In fiscal 2013, the city contributed \$5.0 million. The city also participates in the City of South Lake Tahoe Other Post Employment Benefit Plan, a single-employer defined benefit health care plan. In fiscal 2013, the \$1.8 million contribution covered only about 40% of the \$4.3 million ARC. In our opinion, the issuer is facing large pension/OPEB obligations, and we view this as a negative credit factor. The annual pension and OPEB

costs accounted for 14.5% of the total government expenditures in fiscal 2013. Management has shared that it was able to negotiate to eliminate the city's current retiree health care plan, which management expects will significantly reduce the accrued liability. Management reports that the liability was reduced to \$25 million from \$47 million and this latest reduction will reduce the liability further. In addition, the city has \$5.6 million in an irrevocable trust. To address its growing cost, the city will instead offer a cheaper plan and provide current retirees the option to upgrade to the current plan at a premium.

Strong institutional framework

We consider the institutional framework score for California cities with \$500,000 or more in federal awards expended annually and two or more federal programs as strong. See Institutional Framework score for California.

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. However, we believe South Lake Tahoe's reliance on TOTs and the tourism industry poses the potential for significant performance volatility. 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: Appropriation-Backed Obligations, June 13, 2007

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of November 25, 2014)

South Tahoe Jt Pwrs Fing Auth, California

South Lake Tahoe, California

South Tahoe Jt Pwrs Fing Auth (South Lake Tahoe) certs of part

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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South Tahoe Jt Pwrs Fing Auth rfdg lse rev bnds ser 2006A

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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Summary: South Lake Tahoe, California; Appropriations; General Obligation

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