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

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## Table Of Contents

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| Credit Profile | | |
|---|---|---|
| **South Tahoe Jt Pwrs Fing Auth rfdg lse rev bnds ser 2006A** | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Upgraded |

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its long-term and underlying ratings (SPUR) to 'AA-' from 'A-' on South Tahoe Joint Powers Financing Authority, Calif.'s $22.85 million series 2006A refunding lease revenue bonds. The upgrade reflects our view of very strong financial reserves and continued revenue growth combined with good cost containment measures, as well as a resilient tourism-dominated economy that has demonstrated an enduring year-round appeal to visitors.

The 'AA-' rating reflects our view of the City of South Lake Tahoe's:

- Covenant to budget and appropriate lease payments;
- Continued healthy growth in its diverse property tax base, with assessed valuation rising to $4.1 billion, or over $200,000 per capita, in fiscal 2008;
- Strong financial reserves that have been maintained well in excess of its 25%-of-expenditures reserve policy, with an estimated $13.3 million, or 56% of prior-year expenditures, on hand at the close of fiscal 2009; and
- Reliance on tourism to support general fund operations, given that transient occupancy tax (TOT) revenues represent the largest component of the city's general fund.

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 various properties whose combined value far exceeds the par amount of the bonds at over $30 million. Additional security is provided by a fully funded reserve fund at the standard three-pronged test. Although the bonds are a general fund obligation, the city intends to make bond payments from excess South Lake Tahoe Redevelopment Agency TOT revenues, pursuant to a TOT administration agreement. TOT revenue and sales tax revenue are lower than in prior years due to a weakened tourism economy, and general fund revenues are tracking 2.7% below budget as of the first quarter of fiscal 2010. TOT revenues were $5.1 million in 2008 versus maximum annual debt service (MADS) of $1.8 million.

South Lake Tahoe has a population of about 25,000 and 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 non-winter 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, particular 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 financial performance has been in our view strong, and is characterized by high reserve levels supported by a 25% policy. TOT and property tax revenues are the leading sources of revenue, accounting for an estimated 25% and 15% of total general fund revenues, respectively, in fiscal 2008. Sales tax revenues accounted for 18% of general fund revenues in fiscal 2008 and are down a slight 7% from the prior two years. Based on unaudited estimates for the fiscal year ended June 30, 2009, the unrestricted reserve in the general fund was $13.3 million, or what we consider a very strong 56% of prior-year expenditures. In 2010 to date, as economically sensitive revenues come in slightly below budget, the city has made adjustments that include spending reductions but also about $1.5 million in reserves, which would bring the reserve to about $11.8 million, or about 50% of expenditures.

We consider the city's financial management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. For example, the city has a detailed debt management policy that contemplates variable-rate indebtedness under some circumstances, it presents investment reports regularly to the city council, it 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 stand-alone or longer-term document or process in place. Budget adjustments may occur at any time throughout the year as need arises. We understand that the city intends its financial reserve policy of 25% to mitigate volatility in main general fund revenue sources, namely TOT and sale taxes, that are economically sensitive.

These lease revenue refunding bonds represent the only general-fund-related debt, with most city debt agency-related in the form of tax increment debt. Overall combined direct and overlapping debt is a low 1.5% of market value and $2,056 per capita. The city has estimated its other postretirement employee benefit (OPEB) liability at approximately $46 million, with its annual payment at approximately $1 million to the system. The city is addressing this liability by setting aside $400,000 per year, having accumulated a $1.6 million balance (net liability of approximately $44.4 million) thus far. The city is evaluating its health benefits in an effort to further reduce its unfunded liability. The city's pension system as of fiscal 2003 was approximately 89% funded, with a total combined unfunded liability of $10.4 million. Including both the city's OPEB and pension unfunded liabilities, debt per capita rises to $4,333, or 3.1% market value. The city has no additional bonding plans. Amortization of direct lease revenue debt is above average, with 38% retired in 10 years and 100% retired in 20 years.

## Outlook

The stable outlook reflects our expectation that the city will maintain reserves at or near currently strong levels given its reliance on tourism and related revenues such as TOT and sales tax. The stable outlook also reflects our view of the city's continued positive revenue growth trends in major revenue categories, including sales tax, TOT and especially property taxes. Finally, the stable outlook reflects our view of the city's attractive location for tourists, especially during the winter ski season, and its recent ability to capture larger shares of related TOT and sales tax revenues given recent ballot measures.

## Related Research

USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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