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Summary:

South Tahoe Joint Powers Financing Authority, California
Successor Agency to the South Tahoe Redevelopment Agency; Tax Increment

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Credit Profile		
US$29.0 mil rfdg tax alloc bnds (Successor Agy to the South Tahoe Redev Agy) ser 2014A due 10/01/2037		
Long Term Rating	BBB-/Stable	New
South Tahoe Jt Pwrs Fing Auth, California		
South Tahoe Redev Agy, California		
South Tahoe Jt Pwrs Fing Auth (South Tahoe Redev Agy) (So Tahoe Redev Proj Area #1)		
Unenhanced Rating	BBB-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'BBB-' long-term rating to South Tahoe Joint Powers Financing Authority, Calif.'s series 2014 revenue bonds, issued for the Successor Agency (SA) to the South Tahoe Redevelopment Agency (RDA). At the same time, Standard & Poor's affirmed its 'BBB-' long-term and underlying rating (SPUR) on the authority's outstanding revenue bonds. The outlook is stable.

The rating reflects our opinion of the following credit weaknesses:

- Continued declines in the project area's assessed value (AV), which has increased the agency's reliance on pledged transit occupancy tax (TOT) revenue to make debt service payments;
- Concentrated taxpayer base, with the top 10 taxpayers accounting for 72.5% of incremental AV in fiscal 2015; and
- Concentrated TOT taxpayer base, with the top 10 TOT taxpayers accounting for 93% of total TOT collections in fiscal 2013.

The preceding credit weaknesses are partially mitigated by our view of the following:

- The project area's adequate coverage of maximum annual debt service (MADS) of 1.30x based on pledged former tax increment and transit occupancy tax revenues from fiscal 2015 AV; and
- Moderately low base year-to-total AV volatility ratio of 0.25, which indicates moderate sensitivity in tax increment revenues to fluctuations in overall AV.

The 2014 bond are secured by revenues from two sources: a first-lien pledge on tax revenue money generated by the SA's project area net of pass-through payments deposited from time to time into the redevelopment property tax trust fund (RPTTF) and TOT revenues generated in the project area. We understand bond proceeds will be used to refund the SA's outstanding 1999A, 2003A, and 2004A tax allocation bonds. Upon the successful sale closing of the 2014A bonds, the ratings on the 1999A, 2003A, and 2004A TABs are subject to discontinuation. We note that the sixth supplemental trust indenture modifies the security language for the outstanding 2005 and 2007 revenue bonds, making the pledge on parity with the 2014 bonds and payable from RPTTF for the tax increment portion. The debt service for all bonds is first paid using RPTTF revenue. 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. The rating reflects the credit qualities of the combined pledged revenue stream.

The city of South Lake Tahoe is acting as successor agency (SA) to the former redevelopment agency (RDA) after the state legislature and a subsequent court ruling dissolved all RDAs in California in February 2012, pursuant to ABx1 26 and subsequent amending legislation, AB 1484. ABx1 26 and AB 1484 provide an SA and its oversight board with the ability to issue refunding debt. AB 1484 also provides that bonds issued post-dissolution maintain the same validity as those issued pre-dissolution and include provisions that make it possible in practice to issue refunding debt. The law requires an SA to receive approval from its oversight board and the state department of finance (DOF) before it can issue refunding bonds.

ABx1 26 and AB 1484 require SA and oversight officials to adhere to deadlines for requesting debt service payment amounts and subordinating pass-through payments when necessary. Since the law limits the SA revenue to payment on enforceable obligations and since it requires more proactive management than under the pre-dissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality. We note the agency received its finding of completion on Feb. 6, 2014.

The 174-acre project area, located in the resort city of South Lake Tahoe, is immediately adjacent to the Nevada border and at the base of Heavenly Mountain ski resort, hosts on average about 4 million visitors annually and has more than 3,000 hotel, motel, and timeshare units. The city's median household effective buying income is very strong, in our view, at 181% of the national median in 2013.

AV for the project area continued to decline down 10.3% in fiscal year 2015. The project area's AV has demonstrated declines in each year during the past few years. . As of fiscal 2015, the project area's AV ended at $522.4 million in fiscal 2015. The steep declines have come from successful AV appeals by timeshares and stalled development projects during the property market's downturn. Management indicates that there continue to be increased residential and commercial development within the project area and they expect AV for the project area to increase during the next few years. However, projections for fiscal 2016 could not be provided by the county assessor. The project area's tax base is also highly concentrated in our view, with about 70% of incremental AV coming from the top 10 taxpayers and the top taxpayer, First American Trust, making up 15% of fiscal 2015 incremental AV.

The TOT revenue collections from within the project area have had some fluctuations during the past few years, most recently increasing by 7.7% in fiscal 2013 and falling by 7.5% in fiscal 2014. Management indicates that they are projecting TOT revenues to increase by 5.9% in fiscal 2015, bringing projected total collections up to roughly $4.3 million. TOT revenue concentration within the project area is very high in our view with the top 10 TOT taxpayers accounting for roughly 93% of total collections. We note that the top three TOT taxpayers are major hotels, which together comprise 74% of total TOT collections.

At the current AV level, pledged RPTTF and projected transit occupancy tax revenues generated from the project area -- after taking out pass-through payments and county charges -- can cover MADS by 1.30x in fiscal 2015, which we consider adequate. The project area's volatility ratio (based only on RPTTF generated by the project area) is a moderately low 0.25, indicating moderate sensitivity in tax increment revenues to fluctuations in overall AV. Based on the volatility ratio, we believe the agency could withstand the loss of close to 15% of total AV within the project area and still maintain 1.0x MADS. Management also indicates that the sixth supplemental indenture prohibits the SA from issuing additional bonds except for refunding purposes.

The indenture requires the SA to include any tax revenue reserves for debt service on its recognized obligation payment schedule (ROPS) if management projects a shortfall in the following ROPS period; however, the indenture does not specifically require the SA to reserve 50% of principal in the first ROPS period. As a cash strength, we note that TOT revenues are available to cover any potential cash flow shortfalls and the fact that TOT revenues are collected by the SA on a monthly basis mitigates the risk of cash-flow shortfalls during the fiscal year. We note the agency has had no problems making its debt service payments during the past few years and does not project to do so going forward.

Due to the cash flow disbursements and the declines in AV that have equated to the loss of tax increment revenue generated by the project area, the project area's reliance on TOT revenue for the payment of debt service has steadily increased. Currently, pledged RPTTF revenues only cover MADS by roughly 56.8% in fiscal 2015. Going forward, management estimates receiving about $4.3 million per year in TOT revenue which will be necessary to cover the rest of the required debt service on the authority bonds. The amount of TOT revenue depends on the amount of snowfall, which attracts more winter tourists and increases 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.

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 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 rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Special-Purpose Districts, June 14, 2007
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011

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