Summary:

Lake Tahoe Community College District, California; General Obligation

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Credit Profile
US$19.0 mil GO bnds (Election Of 2014) ser A due 08/01/2045
Long Term Rating AA-/Stable New

Rationale
Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Lake Tahoe Community College District, Calif.'s series A (election of 2015) general obligation (GO) bonds. The outlook is stable.

The ratings reflect our view of the district's:

- Strong to extremely strong economic indicators, although rooted in tourism, with a significant amount of revenues coming from property taxes on second homes;
- Maintenance of strong available reserves and a board policy of maintaining at least 10% of general fund operations in reserve;
- Operational flexibility in reducing expenditures, as the district is not required to provide any given level of educational service; and
- Good financial management practices.

Somewhat offsetting the above strengths are our view of the district's high debt on a per capita basis and slow amortization.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. We understand that bond proceeds will be used to fund construction, equipment, improvement, and modernization projects.

The district serves a population of around 35,000 over 196 square miles in the eastern portion of El Dorado County, on the border of Nevada. The district currently operates one campus, Lake Tahoe Community College, in South Lake Tahoe. The district's underlying economy is largely tourism based. Lake Tahoe is a destination area for snow-based activities during the winter and lake-based activities during the summer. The district's taxbase includes several ski resorts, a marina, and other resorts. According to management, an estimated 65%-70% of houses in the district are second homes. The county's per capita and median household effective buying incomes are strong, in our opinion, at 121% and 119%, respectively. The district's assessed value (AV) has increased the past two years by an aggregate 5.4%, after an aggregate decrease of 10.5% in the prior three years. The district's current market value of $6.1 billion translates to an estimated $173,000 per capita, which we consider extremely strong.

Much of the district's operating revenue comes from state funding, which is allocated based on its full-time-equivalents (FTEs). The district had historically managed its enrollment, and does not admit unfunded FTEs. After a sharp decline
of 22.3% in fiscal 2013, due largely to a change in state funding. FTEs increased by 14.1% in fiscal 2014 with another 5% projected increase in fiscal 2015 to 1,751 students.

The district's finances are strong in our opinion. After essentially balanced general fund performance in fiscal 2014, the district ended with an available general fund balance of $2.1 million, which we consider strong at 13.6% of total general fund expenditures. The district drew down its general fund from a high of $3.1 million in fiscal 2012 but this was largely due to transferring reserves to other funds, including an irrevocable trust for the district's other postemployment benefits (OPEB). We understand that the district projects a small operational surplus of around $37,000 in fiscal 2015 and is budgeting for another $189,000 general fund surplus in fiscal 2016.

We consider the district's management practices "good" under our Financial Management Assessment methodology, indicating our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights of the district's practices include quarterly budget-to-actual reporting to the board as well as maintenance of a multiyear financial plan that is updated annually and incorporates anticipated pension increases. The district also maintains a 10% formal reserve policy based on district management's internal analysis of necessary reserve levels. The district has a multi-year facilities master plan, but it is not updated annually. Investments are held with the county treasurer; however management does not share the holdings with the board. The district does not have a debt management policy.

The overall net debt burden on the district's residents is high on a per capita basis, at roughly $6,331, and moderate as a percentage of market value, at 3.7%. Amortization is slow, with only 22% of principal scheduled to be retired in 10 years and 40% to be retired in 20 years. The $19 million issuance is the first under the $55 million bond Measure F, approved by voters in November 2014. We understand that the next Measure F bond issuances are currently scheduled for: 2018 ($15 million), 2021 ($11 million), and 2024 ($10 million).

The district contributes to both the Public Employees' Retirement System (PERS) and the State Teachers' Retirement System (STRS). During the past three years, the district has contributed the full required amount to both, including its fiscal 2014 combined contribution $741,000 or 3.7% of total expenditures. The district offers OPEBs, and has historically contributed on a pay-as-you-go basis, however in fiscal 2014 it contributed the full annual required contribution (ARC) of $184,000 or 0.9% of total expenditures. The entirety of this contribution went to establish an irrevocable trust. As of the district's most recent actuarial valuation in March 2015, the district's actuarial accrued liability was $1.3 million.

**Outlook**

The stable outlook reflects our view of the district's strong finances, which are supported by good financial management practices and procedures. If the district's economic base were to continue to expand, we could raise the rating. Alternately, if the district were to significantly draw down on its reserves, we could lower the rating. However, we do not anticipate either of these to occur during the outlook's two-year horizon.
Related Criteria And Research

Related Criteria

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Complete ratings information is available to subscribers of RatingsDirect 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.