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CREDIT OPINION
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Lake Tahoe Community College District, CA

Update to Credit Analysis

Summary

Similar to many California community college districts, rising pension costs will be an ongoing budget pressure for Lake Tahoe Community College District (A1 positive). However, the district is well positioned to afford these costs given its strong financial position that is expected to remain stable coupled with management's conservative fiscal practices. The district also benefits from a diverse and largely residential tax base that is poised for additional moderate growth, solid socioeconomic indicators and low debt and OPEB burdens.

Credit strengths

» Large and diverse tax base poised for additional moderate growth

» Improved financial position supported by strong reserves, including alternative funds outside of the general fund that are expected to remain stable

» Significant operating flexibility inherent to California community college districts

» Strong management team

Credit challenges

» Rising pension costs

» No significant revenue raising flexibility; an inherent challenge for all California community college districts.

Rating outlook

The positive outlook reflects the district's sizeable and diverse tax base that will continue to experience moderate growth, and recently improved financial position supported by strong reserves and liquidity that we expect to remain stable for at least the next two to three years.

Factors that could lead to an upgrade

» Continued strong operating performance and maintenance of reserves and liquidity within current levels

» Continued moderated growth in assessed value

» Stable to growing full time equivalent students (FTES)

» Considerable progress in fully funding OPEB

Factors that could lead to a downgrade

- Sizeable decline in reserves and liquidity
- Material contraction in assessed value
- Significant decline in FTES
- Inability to manage retirement costs

Key indicators

Exhibit 1

Lake Tahoe Community College District, CA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$ 5,758,030	$ 5,838,802	$ 6,070,145	$ 6,389,463	$ 6,687,825
Full Value Per Capita	$ 170,195	$ 172,227	$ 178,576	$ 189,016	$ 198,007
Median Family Income (% of US Median)	105.6%	105.1%	105.2%	105.2%	105.1%
Finances					
Operating Revenue ($000)	$ 15,805	$ 15,699	$ 16,474	$ 22,750	$ 21,450
Fund Balance as a % of Revenues	11.4%	13.2%	10.5%	23.7%	16.8%
Cash Balance as a % of Revenues	-2.5%	3.9%	14.9%	26.3%	24.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 1,406	$ 1,311	$ 1,230	$ 19,004	$ 17,604
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.8x	0.8x
Net Direct Debt / Full Value (%)	0.0%	0.0%	0.0%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.7x	1.8x	1.4x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.5%	0.5%	0.5%	0.5%

Sources: Moody's Investors Service and Lake Tahoe Community College District

Profile

Lake Tahoe Community College District is located in South Lake Tahoe and includes one campus, Lake Tahoe Community College. Lake Tahoe Community College is a two-year, public institution offering associate degrees, certificates, career education, and continuing education programs. The district is governed by a five member Board of Trustees and its full time equivalent students for fiscal 2018 are projected at 1,739.

Detailed credit considerations

Economy and tax base: sizeable and highly residential tax base poised for additional moderate growth

Current and projected development in addition to housing turnover will support continued moderate growth in assessed value (AV) over the medium term. The district's assessed value is largely residential (83.7% of AV) and comprises both the City of South Lake Tahoe (64.0% of AV) and unincorporated El Dorado County (36.0% of AV). Assessed value reached $7.1 billion in 2018, which is a 6.6% increase over the prior year and the five year average annual growth is solid at 4.4%. AV per capita of $203,667 is strong and reflects the area's desirability as a vacation or second home destination. The district's tax base is diversified with the ten largest taxpayers comprising 5.2% of 2018 secured AV. Many of the largest taxpayers are resort oriented businesses, and will likely remain invested in the community for the long-term. The local economy is highly dependent on tourist inflow and discretionary spending, and the year-round recreational destination will continue to be a strong driver for the local economy.

District wealth measures are solid and best reflective when considering both the City of South Lake Tahoe's median family income (MFI) of 78.6% of the US and El Dorado County's MFI which is stronger at 131.7% of the US. The unemployment rate in El Dorado County remains low at 3.9%.

Finances and liquidity: sound financial position supported by strong reserves and liquidity

We expect that the district will continue to produce solid financial operations given management's prudent budgetary practices. Fiscal 2017 marks the district's second conservative operating surplus which was primarily due to the receipt of one-time state revenues and expenditures savings across all departments. The district's fiscal available general fund balance ended at $2.3 million or a solid 11.8% of general fund revenues. The district's financial position is bolstered by alternative funds held outside of the general fund that have a total balance of $1.4 million. These funds could be used for operations, if needed, and increase the district's reserve position to $3.7 million or a healthy 18.9% of general fund revenues.

The district's reserves are broadened by the availability of general obligation bond debt service reserve monies held in the district's bond interest and redemption fund that are restricted in use for general obligation bond payments. Including these monies, the district's available operating reserve (general fund, alternative funds and bond interest and redemption fund) rises to a healthy 23% of operating fund revenues.

The district's fiscal 2018 budget includes a modest draw on fund balance of $26,069, and reserves are projected to remain in-line with the prior year which seems reasonable given management's conservative fiscal practices. In addition, the district's board policy includes maintaining unrestricted general fund reserves at a minimum of 10% of expenditures, but management's target is higher at 15%. It would be credit positive should the district's management team maintain reserves and liquidity within current levels over the next two years.

The district's major source of funding is its Full-Time Equivalent Students. The district's FTES have been relatively stable over the past four years and are projected to slightly increase to 1,780 in fiscal 2019. Management has diversified its source of funded FTES to ensure long-term stability by creating partnerships with local agencies to be a regional training destination for police, fire and other public safety professions, as well as maintains a dual enrollment program with Lake Tahoe Unified School District and has a growing Incarcerated Student Program. The district's soccer program has helped fuel international recruits and ensure non-resident FTES continue to grow.

LIQUIDITY

The district's liquidity position in fiscal 2017 was healthy with unrestricted general fund cash at $4.0 million or 20.1% of general fund revenues. Operating cash balance (general fund and bond interest and redemption fund) was also strong and totaled $5.3 million or 24.5% of operating revenues. Similar to its reserve position, we expect that the district's liquidity will remain stable.

Debt and Pension: debt burden expected to remain low; moderate pension burden

The district's direct debt burden will remain low given our expectation that assessed value will continue to grow at a moderate rate. Including the current offering, the district's net direct burden is low at 0.46% of AV. The current offering is the second issuance under Measure F and the district expects its next debt issuance to be in three years. There will be $21.0 million in authorized unissued debt after the current offering.

DEBT STRUCTURE

All of the district's long-term debt comprises of fixed current interest bonds

DEBT-RELATED DERIVATIVES

The district does not have any outstanding debt related derivatives.

PENSIONS AND OPEB

The district provides employees with defined benefit pension plans through the California State Teachers' Retirement System and the California State Public Employees Retirement System. Steadily increasing contribution rates are a growing burden on the district's finances, but should remain manageable in comparison with the district's overall budget. In addition, the district maintains a Retiree Benefit Fund that has a total balance of $620,720 to help offset increasing pension costs. Future contributions to the fund have yet to be determined.

Moody's three-year average of the adjusted net pension liability (ANPL) for the district, is a moderate 1.66 times operating revenues, which equates to an A-rating score on our scorecard. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

The district’s unfunded OPEB liability is low at $970,720 or 14% of payroll. The district’s funded its irrevocable OPEB trust in fiscal 2014 and the trust has a balance of $773,314 (December 31, 2017). District management expects that the district’s OPEB liability will be fully funded in two to three years.

Management and Governance

California school districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California school districts' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, California has strong public sector unions and additional expenditure constraints, which limit the ability to make cuts. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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