S&P Global Ratings

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Summary:

Lake Tahoe Community College District, California; General Obligation

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Credit Profile		
US$15.0 mil GO bnds (Election Of 2014) ser 2018B due 08/01/2048		
Long Term Rating	AA/Stable	New
Lake Tahoe Comnty Coll Dist GO		
Long Term Rating	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AA' from 'AA-' on Lake Tahoe Community College District (CCD), Calif.'s series A (election of 2014) general obligation (GO) bonds. The raised rating reflects our view of the district's track record of ongoing stable finances, maintenance of strong available fund balances, and sound management of other postemployment benefit (OPEB) liabilities. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the district's series 2018B GO bonds. The outlook is stable.

Unlimited ad valorem taxes levied on all taxable property within the district secure the GO bonds. The El Dorado County Board of Supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment. The series 2018B bonds are the district's second issuance under its Measure F authorization, which district voters approved on Nov. 4, 2014. We understand that the district is issuing the bonds to fund construction, equipment, improvement, and modernization projects.

The ratings reflect our view of the district's:

- Extremely strong property wealth numbers, rooted in tourism, with a significant amount of revenues coming from property taxes on second homes;
- Stable finances, in addition to 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 moderate debt profile and slow amortization.

Economy

The CCD, coterminous with Lake Tahoe Unified School District, serves a population of around 28,556 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, known as a destination area for snow-based activities during the winter and lake-based activities during the summer. In our opinion, Lake Tahoe's tourism industry remains strong and robust with roughly 2 million visitors annually with year-round activities. The district's taxbase includes several ski resorts, a marina, and other resorts. The top 10 taxpayers are very diverse at 5.1% of assessed valuation (AV). The top taxpayer, Heavenly Mountain Resort, opened in 1955 and attracts almost 1 million visitors annually. The overlapping school district's per capita and median household effective buying incomes (EBI) are adequate to good, in our opinion, at 91% and 80%, respectively. The district's AV has increased the past five years by an average of 4.4%, after an aggregate decrease of 10.5% in the prior three years. The district's current market value of $7.1 billion translates to an estimated $249,626 per capita, which we consider extremely strong. The city continues to see economic development growth, with large-scale projects such as the Chateau, Bijou Creek Restoration, and the Robert Maloff Center.

The district will benefit from the development of Greenway Bike Trail, which will help students connect to campus. In our opinion, because of the district's growing AV, we believe Lake Tahoe's economy will likely remain vibrant and in high demand. We estimate roughly 65%-70% of houses in the district are second homes.

Finances

Under the state's funding system for community colleges, the district's revenue is largely determined by its full-time-equivalent students (FTES) count. Although the district's FTES declined by a cumulative 27.5% from fiscals 2010 to 2013, they have grown by 18.4% cumulatively to 1,734 FTEs in fiscal 2018. In fiscal 2017, the state reimbursed the district for a lower student count from an abnormally severe winter storm, therefore the district was fully funded at 1,739 students. The district expects the FTES count to resume growing with new instructional service agreements and investments in the incarcerated, online, and dual enrollment programs. The district also received a $5.8 million donation to pay for a new University Center, currently partnering with Sierra Nevada College to grant bachelor degrees, which could attract more students. The University Center is set to open in fall 2018.

In our opinion, the district's finances continue to be very strong and stable, running general fund surpluses of 4.0% and 0.5% of expenditures in fiscal 2016 and 2017, respectively. The district's history of conservative budgeting has allowed the district to make sizeable transfers from the general fund to alternative funds to alleviate retiree benefit costs and capital projects in coming years. The district established an irrevocable OPEB trust fund in fiscal 2014 with a balance of $735,000. Based on the audited actuarial valuation date of June 30, 2017, the OPEB funded ratio is 43%. The district expects to fully fund the OPEB liability in the next two to three years.

The district ended fiscal 2017 with a slight surplus of $97,000, with an available fund balance of 12.7% of general fund expenditures, a level we consider strong. In addition, management indicates the district has $1.4 million in alternative funds that could be transferred back for general fund operational use with board action, which equates to 7.5% of operating expenditures. Fiscal 2018 is budgeted to end balanced and management expects the typical revision upward at year-end given conservative revenue assumptions and non-filled vacancies. Given the CCD's historical financial performance, we believe the CCD will maintain its solid financial position.

Financial Management Assessment

We consider the CCD'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.

Key management policies and practices include:

- Well-grounded and realistic revenue and expenditure forecasts;
- Quarterly review of budget-to-actual reports with board participation;
- Current plus three years financial plan that is updated annually and incorporates anticipated pension increases;
- Maintenance of a facilities masters plan covering 2014-2020;
- Investments are held with the county treasurer, with the board reviewing investments annually in the audit;
- A formal debt policy that defines debt issuance guidelines such as amount, oversight, structure, timing, and type, but lacks specific numerical constraints; and
- Formal reserve policy to maintain a 10% of expenditures with a goal of 15%, based on the district management's internal analysis of necessary reserve levels, which the CCD has historically exceeded.

Debt

We view the district's overall debt burden to be moderate at 3% of market value and high on a per capita basis ($7,452) in fiscal 2018, although we note that about 85% of this overall burden is overlapping debt from other jurisdictions. We recognize the high debt burden on a per capita basis is partially a function of the seasonality in the district's population. Amortization is slow, with only 12% of principal scheduled to be retired in 10 years and 31% to be retired in 20 years. Under the $55 million bond Measure F, approved by voters in November 2014, the district has now issued two series of bonds worth $34 million. We understand that the next Measure F bond issuances are currently scheduled for 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). The district has contributed the full required amount to both in fiscal 2017, with a combined contribution of $1.1 million, or 4.1% of total expenditures. The district also offers OPEB and contributed the full annual required contribution (ARC) of $393,000 in fiscal 2017, or 1.5% of total expenditures. Beginning in fiscal 2014, the district established an irrevocable OPEB trust fund, which is valued at $735,000. As of the district's most recent audited actuarial valuation in June 30, 2017, the district's unfunded actuarial accrued liability was $971,000.

Outlook

The stable outlook reflects our view of the district's solid track record of strong finances, which are supported by good financial management practices and procedures. The outlook further reflects the district's robust tourism base, which we anticipate will likely remain in high demand and continue to support local employment and enrollment. We do not anticipate changing the rating in our outlook's two-year horizon.

Upward scenario

If the district sustainably builds up reserves and incomes strengthen to levels more commensurate with its higher-rated peers, we could raise the ratings.

Downward scenario

Alternately, if the district were to significantly draw down on its reserves, we could lower the ratings.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,