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Ratings

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Summary:

Greater Boise Auditorium District, Idaho; Appropriations

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Capital City Dev Corp (Greater Boise Audit Dist) lse rev bnds (Greater Boise Audit Dist) (Centre Bldg Proj) ser 2016 due 12/15/2036		
Long Term Rating	A-/Negative	Downgraded

Rating Action

S&P Global Ratings lowered its rating to 'A-' from 'A+' on Capital City Development Corp., Idaho's series 2016 lease revenue bonds issued for the Greater Boise Auditorium District. The outlook is negative.

The downgrade reflects our view of the substantial deterioration in the district's pledged revenue supporting the bonds, which is solely made up of economically vulnerable hotel tax revenue. As a consequence of the COVID-19 pandemic, social distancing measures implemented in response to the outbreak, and the ongoing recession the district has projected a sharp decline in pledged revenues, weakening coverage, and significantly elevating the volatility of the district's pledged revenue.

Deviation from published criteria

One or more of the credit ratings referenced within this article were assigned using a deviation from S&P Global Ratings' published criteria. We borrowed elements of our "Key Credit Factors For Social Infrastructure, Accommodation, And Entertainment Project Financings" criteria (published Sept. 16, 2014), specifically the market exposure and competitive position assessment, to assess the district's creditworthiness. As the district is a primarily tax-funded public operating entity, we see key differences between the district and a private convention center or stadium project financing, particularly insofar as the district is an actively managed public entity with the ability to manage revenue and expenditures over the long term. Nevertheless, we consider the district's exposure to market risk and the proportionate share of market-sensitive revenue in our credit analysis.

In addition, we applied our general obligation (GO) debt criteria (published October 2006), as we view the district's operations as relevant to understanding credit quality, and the priority lien rating can be constrained by our view of the district's general creditworthiness. The district was established in 1959 under a statutory framework that provides for regional financing for building and operating events centers such as the convention center. The district is not a component unit of the city of Boise or Ada County and has separate governmental financial statements. The district is governed by a publically elected, nonpartisan, five-member board of directors that serve six-year terms, which are staggered such that voters elect at least one director every two (odd) years.

The bonds are secured by monthly lease payments that the district makes, as lessee, to the Urban Renewal Agency of Boise City, as lessor, for the use of the expansion of the district's convention and events center completed in 2017. The district has granted the lessor a senior lien on revenue it receives from a 5% short term lodging tax within the district for the purpose of lease payments, and payments are not subject to abatement in the event of a loss of use of the facility. The lease is limited to a one-year term, which the district must annually renew to maintain control and usage of the leased asset and could remove the first lien on the pledged revenue by allowing the lease to terminate. As the district stands to lose use of the facilities in the event of non-renewal, we have considered the appropriation risk inherent to the lease structure but do not consider it to be significant weakening credit factor.

Credit overview

With the onset of the COVID-19 pandemic and social distancing measures implemented in response to the outbreak, we expect economically sensitive pledged revenue to fall in fiscal 2020, weakening its coverage metrics and introducing significant revenue volatility risk in the short to medium term. The city of Boise, which is essentially coterminous with the district, had previously experienced significant economic expansion, driven by diverse local sectors such as health care, higher education, and government services. The district operates the Boise Centre, which continuously operates at a loss and is supported by the local hotel tax. Given a projected drop in pledged revenues, the district has opted to transfer out of its stabilization fund to support a shortfall in the Boise Centre operations and debt obligations. District officials note that if Boise Centre operations are deemed unsustainable, it could cease all operations, and use the limited pledged revenues, as well as the district's significant liquidity of $23 million to continue to pay debt service. The negative outlook reflects our view that there is a one-in-three chance of a lower rating due to a continued decline in pledged revenue, resulting in a severe dilution of coverage, or a worsening of our view of the district's general creditworthiness. Future credit reviews will focus on the pledged revenue collection trend and subsequent debt service coverage. Prolonged weak collections or further deteriorating debt service coverage could lead to additional rating pressure.

S&P Global Economics projects that the COVID-19 pandemic has caused the national economy to fall into a recession (see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020 on RatingsDirect) and "All U.S. Public Finance Sector Outlooks Are Now Negative" (April 1, 2020) . We now forecast U.S. GDP will contract 5.3% in 2020 and a historic (annualized) decline of almost 35% in the second quarter given U.S. economic activity has effectively stopped.

The rating further reflects our view of the district's:

- Reliance on economically sensitive hotel tax, which is highly vulnerable to substantial declines in consumer demand as a result of COVID-19 and social distancing practices;
- High revenue volatility, reflecting our assessment of an anticipated significant decrease of pledged revenue in fiscal 2020, with continuing effects in future fiscal years;
- Adequate coverage and liquidity, as maximum annual debt service (MADS) coverage is expected to worsen due to a drop in pledged revenues, offset by the district's ample liquidity; and
- Broad and diverse Boise City metropolitan statistical area (MSA) and our view of its very strong fundamentals.

Environmental, social, and governance factors

The ongoing COVID-19 pandemic and the social risk arising from it have led to social distancing measures implemented and shelter-in-place orders issued by state governments in order to limit the virus' spread. As a consequence, demand for hotels and conventions has plummeted, causing widespread cancellation of district events, and is leading to a material weakening in the district's financial position and pledged revenue coverage. In addition, the onset of the recession is further deteriorating the district's fiscal conditions. Our analysis of these risks encompasses our review of environmental, social, and governance risks that currently exist.

Negative Outlook

Should the district's pledged revenue continue to weaken, as a result of an extended economic downturn, our view of the district's overall credit quality could worsen, resulting in a lower rating.

Should the district effectively maintain its cash through limited operations and it is able to effectively manage the compromised revenue climate, resulting in limited disruption to district finances and sufficient coverage, we could revise the outlook to stable.

Credit Opinion

Revenue Volatility: High

We have revised our assessment of the district's revenue volatility to high from moderate, reflecting an anticipated substantial decline in pledged revenue in 2020 as compared to 2019 because of the COVID-19 pandemic and recession.

We assess the volatility of revenue to determine the likelihood of the availability of revenue during different economic cycles. We have two levels of volatility assessment: macro and micro.

Our macro volatility assessment begins with an assessment of the historical volatility of the economic activity being taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities. Based on the variance of national economic activity that we believe most closely represents the taxing base over multiple economic cycles, it is used to inform our opinion on expectations of future volatility. To determine our view of the volatility of hospitality taxes, we used estimated sales of U.S. accommodation firms data from the U.S. Census Bureau for the period of 1993-2014.

On a micro level, we anticipate a substantial, unprecedented decline in the district's hotel tax revenue in 2020, reflecting the effect of the COVID-19 pandemic and social distancing measures implemented in response to it. Management has forecasted a 60% reduction in pledged revenues for fiscal 2020. We note that the hotel and convention center sector as a whole may be adversely influenced for a longer period, as risks regarding the potential for COVID-19 transmission will persist in the absence of a workable vaccine, potentially leading to declining demand for convention events despite an expected relaxing of social distancing measures in the short term.

While the combined strength of pledged revenue had been stable in previous years, with continuous revenue over the past 10 years of economic expansion, the district's reliance on economically sensitive revenue streams highlight its overall vulnerability to declines in recessions, as well as the added risk in this current situation because of COVID-19 and social distancing effects. We anticipate the district's pledged revenue base will remain volatile and weaker over the next few years as consumers and businesses balance safety risks and economic activities that drive the district's revenue.

Coverage and liquidity: Adequate

We have revised our assessment of the district's coverage and liquidity to adequate from very strong, based on our expectation of pledged revenue deterioration in the next few years, leading to substantially weaker coverage on the senior-lien bonds.

Based on district's 2019 pledged revenue, pledged coverage of senior-lien MADS is 4.92x, with MADS occurring in 2019, up from 4.49x MADS coverage in our last review in October 2019, reflecting a previously growing trend of tourism within Boise.

To issue additional senior-lien debt, total pledged revenue for the full fiscal year prior to the proposed issuance of the additional bonds must provide at least 2x coverage of the new MADS. As provided in the priority-lien tax revenue debt criteria, absent strong incentives, policies, or other covenants that lead us to conclude that coverage is not likely to be diluted to the level of the additional bonds test (ABT), our assessment of coverage will correspond with the ABT.

Our expectation is that coverage will fall to adequate from very strong. Due to the COVID-19 pandemic, the district has projected a drop of more than 50% in revenue through the rest of the year, assuming no recovery. With this change, debt service coverage will drop to 1.77x MADS. However, district management intends to utilize its liquidity of $23 million to continue to support debt service.

Economic Fundamentals: Very Strong

Despite pressures generated by the COVID-19 pandemic and recession, Greater Boise Auditorium District's economic fundamentals remain very strong

We consider the city of Boise and the surrounding local economy to be very strong, though potential deterioration to the local economy may occur should the current recession last for an extended period. The district's economic base is essentially coterminous with the city of Boise, which is considered a broad and diverse metropolitan statistical area (MSA). The city has experienced economic growth in recent history, with nearly 46% growth in assessed value since 2016 to $28.9 billion fiscal 2019. This economic growth has been driven by growth in health care, technology, higher education, and government services. The city's estimated population in 2018 was 223,612 and has shown moderate growth in recent history. Its median household effective buying income (EBI) is good at 104% of the national level, and its market value per capita in 2019 was extremely strong at $154,300. Ada County unemployment was 2.2% in March 2020. Despite this very low figure, rapidly evolving economic conditions due to the pandemic have already affected the labor market (see "U.S. Jobs Report: April is the Cruelest Month" published May 5, 2020). High unemployment, particularly if it exceeds 10%, is a risk. We will monitor the long-term effects of the current downturn on the labor market and the economy overall.

Obligor linkage: Close

Pledged revenue is collected by the Idaho State Tax Commission, which in-turn remits the funds to the district less a nominal administrative charge. We believe pledged revenues have some exposure to operating risk, leading to a one-notch upward limitation compared to the district's general creditworthiness. While pledged revenue is pledged to support debt service first, the flow of funds for the pledged revenue allows management to use excess revenue for operations, and we consider pledged revenue within the district's direct control and exposed to operating risk. Therefore, under our priority-lien criteria, we believe there is a close relationship between the priority-lien pledge and the obligor.

Ratings linkage to district operations

The district's core operations consist of a convention center and public event facility that opened in 1990 and operates as the Boise Centre, with 86,000 square feet of flexible meeting and convention space. The district completed construction for the center's expansion in 2017, which more than doubled the facility's convention space and occupancy. Until recently, the number of event days and yearly attendance has grown year after year. Fiscal 2019 continued the trend, and the trajectory was projected to continue in fiscal 2020. Though all major events in the Boise Centre have been cancelled through the rest of the year, district officials expect smaller local events and fundraisers will continue, which will only help the district's proprietary fund.

The district's proprietary fund, which tracks the facility's enterprise operations, which has operated at an average 19.7% loss before depreciation in the last three audited years. The district's governmental funds have produced a surplus in two of the past three audited years, with a deficit in fiscal 2017 due in part to one-time expenditures. The most recent audited year, fiscal 2019, the district returned a governmental fund surplus of $2.8 million, or 19x expenditures. The district's available fund balance consists of its unassigned fund balance, as well as its stabilization fund, which the district strives to maintain at a minimum $6 million. In the last three fiscal years, the district's available reserves totaled $10.9 million in fiscal 2017 , $14 million in fiscal 2018 and $12.1 million in fiscal 2019. We consider these reserves to be very strong.

Pursuant to our analysis derived from the "Key Credit Factors For Social Infrastructure, Accommodation, And Entertainment Project Financings" criteria, we view the district's competitive position as fair. We have revised our view of the district's market position to negative from neutral, as the COVID-19 pandemic and social distancing practices has resulted in the cancellation of all major conventions in the Boise Centre. However, district management has indicated the district will be able to facilitate smaller events with a more limited staff. As restrictions on social gatherings begin to ease, the district intends to provide opportunities for virtual attendance, which would provide additional revenue. The district has maintained its contracts with a majority of major conventions with the intent to have these events rescheduled in 2021-2023.

We view the district's market strength as positive, as we view the economy as very strong, with good EBI per capita, extremely strong market value per capita, and connection to the broad and diverse Boise MSA. We view the asset's condition as positive, as the Boise Centre was completed in 1990, with major expansions in 2016 through 2017 nearly doubling square footage, and upgrading existing facilities. We view the district's pricing elasticity as neutral, as the district has no pricing controls over the city's hotels. This reflects a positive assessment of the district's market strength and asset condition, a negative market position and neutral price elasticity.

An additional analysis conducted in our review of the Boise Centre and other similar convention centers involves our assessment of the district's market exposure risk. We have revised our view of the Boise Centre's market exposure risk to high from low, reflecting the substantial decline in revenue forecasted in 2020 and in subsequent years as result of the pandemic and recession. We note that district has some flexibility to reduce administrative expenses, and has been communicating with the Boise Convention and Visitors Bureau, a separate entity, to promote tourism and travel to Boise and improve hotel occupancy rates within the district.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020