S&P Global Ratings

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Summary:

Greater Boise Auditorium District, Idaho
Capital City Development Corporation, Idaho; Appropriations

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Capital City Dev Corp, Idaho		
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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-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings revised the outlook to stable from negative and affirmed its 'A-' long-term rating on Capital City Development Corp., Idaho's series 2016 lease revenue bonds issued for the Greater Boise Auditorium District.
- The outlook revision to stable reflects our opinion that the district's underlying credit fundamentals have improved as a result of rebounding tax collections and stabilized operating performance, supporting our expectation of stable budgetary results and maintenance of robust reserves. In addition, the outlook revision incorporates the recent abatement of health and safety risks that we consider under our environmental, social, and governance (ESG) factors, and which has resulted in improved pledged revenue collections and a recovery of debt service coverage to pre-pandemic levels.

Security

We rate the bonds under our priority lien tax revenue debt criteria, published Oct. 22, 2018, which factors in both the strength and stability of the pledged revenue as well as the authority's general credit quality.

Securing the bonds are monthly lease payments by the district, 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 the district 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 nonrenewal, we have considered the appropriation risk inherent to the lease structure but do not consider it a significant credit weakness.

Credit overview

Despite a drop in pledged revenues in fiscal 2020 following the onset of the COVID-19 pandemic, collections are currently approaching pre-pandemic levels, supporting an improvement in both operating performance and maximum annual debt service (MADS) coverage. Due to elevated health and safety risks and a resulting decrease in hotel and convention center activity, pledged revenues decreased 34% in 2020. However, we note that the actual decline was significantly better than an initially projected 60% decrease. Pledged revenues improved in 2021, falling just 2% lower than 2019 collections. Pledged revenues are on track to potentially exceed pre-pandemic levels in 2022. We believe that stable credit trends and improving pledged revenue collections are supported by the district's location within a dynamic and expanding regional economy, and a return to more traditional event schedules. The district was able to modify its direct operations and use some of its ample liquidity to ensure financial stability through a stressed revenue period and maintain very strong coverage.

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

- Strong economic fundamentals with good per capita effective buying income (EBI) and consistent economic growth;
- Reliance on economically sensitive hotel tax or high revenue volatility, reflecting a significant decrease of pledged revenue in fiscal 2020; and
- Strong coverage and liquidity, with maintenance of very strong MADS coverage and ample liquidity.

Environmental, social, and governance

Our credit rating analysis incorporates ESG risks that we consider in our evaluation of the economic fundamentals that support pledged revenue and coverage and liquidity metrics. The outlook revision to stable reflects our view of the abatement of health and safety risks, which has resulted in improving pledged revenue collections and a recovery of debt service coverage to pre-pandemic levels. At the same time, we view environmental and governance risks as neutral considerations in our analysis.

Outlook

The stable one-year outlook reflects our expectation that coverage will remain strong and that economic activity will continue to trend favorably. The stable outlook also reflects our opinion that the district will be able to address capital needs without materially drawing down available reserves.

Downside scenario

Should pledged revenue experience additional shortfalls and materially decrease coverage to a level below the additional bonds test (ABT), our view of overall credit quality could worsen, resulting in a lower rating.

Upside scenario

We could raise the rating if the obligor's creditworthiness materially improved, as demonstrated by improvement in overall key credit quality such as stable operating results, maintenance of very strong reserves, and continued economic expansion.

Credit Opinion

Strong economic fundamentals: Expanding economy and return to event schedules

The district is located in Ada County and its economic base is essentially coterminous with the City of Boise. The city's estimated population in 2021 was 235,655 and has shown moderate growth in recent history. Per capita EBI is good at

101% of the national level. The city has experienced economic growth in recent history, with strong consistent annual assessed value growth as a result of growth in health care, technology, higher education, and government services. Ada County's unemployment rate has been historically below the national average. As a result of the COVID-19 pandemic, county unemployment spiked to 12.1% in April 2020. The labor market has since rebounded, however, and the unemployment rate moderated to 2% as of May 2022, according to the U.S. Bureau of Labor and Statistics. S&P Global Economics forecasts that the national unemployment rate will return to pre-pandemic levels by the second quarter of 2022.

Revenue volatility: Moderate

We consider the volatility of pledged short-term lodging tax revenue moderate. In the past 10 years, pledged revenue has fluctuated, most significantly as a result of economic disruptions associated with the pandemic in 2020 and 2021. In 2009 and 2010, total collections declined year over year, mainly as a result of the Great Recession. Such revenue began to rebound in 2011 and continued to increase annually, peaking at $8.7 million in 2019. Despite fluctuations in collections and weakness in 2020 and 2021, year-to-date collections are trending to exceed collections compared with 2021 and the district forecasts total collections at approximately $9 million, which would be a record. Pledged revenue has returned to solid growth trends, which will benefit overall coverage calculations.

Coverage and liquidity: Strong

Despite revenue shortfalls in 2020, revenue held up and MADS coverage was maintained. The district's 2020 pledged revenue provided 3.25x MADS coverage, and 2021 pledged revenue provided 4.84x MADS coverage. According to the latest budget-to-actual tax collections, the district is forecasting pledged revenue at approximately $9 million for 2022, which is 11% stronger than budgeted, and based on the forecast revenue MADS coverage is expected to exceed 5x if revenue continues to trend positive until fiscal year-end Nov. 30.

For the district 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 ABT, our assessment of coverage will correspond with the ABT.

Obligor linkage: Close

The Idaho State Tax Commission collects pledged revenue, and in turn remits the funds to the district less a nominal administrative charge. We believe pledged revenue has some exposure to operating risk, leading to a one-notch upward limitation compared with 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 see a close relationship between the priority lien pledge and the obligor.

Ratings linkage to district operations

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, more than doubling the facility's convention space and occupancy. Prior to 2020, the number of event days and yearly attendance grew year after year. Although all major events in the Boise Centre were canceled through the end of 2020, the district was able to resume booking events in 2021 and 2022 as pandemic restrictions eased.

The proprietary fund, which tracks the facility's enterprise operations, has operated at an average 20% loss before depreciation in the past three audited years. Governmental funds have produced a surplus in one of the past three audited years, with deficits in fiscal years 2020 and 2021 as a result of revenue shortfalls from canceled or rescheduled conventions. For the most recent audited year, fiscal 2021, the district returned a governmental fund deficit of about $440,000, or 1.5x expenditures. The available fund balance consists of an unassigned fund balance and a committed stabilization fund, the latter of which the district strives to maintain at no less than $6 million. Available reserves totaled $12.1 million in fiscal 2019, $15.7 million in fiscal 2020, and $12.6 million in fiscal 2021. We consider these reserves very strong as a percentage of expenditures.

Pursuant to our analysis derived from the "Key Credit Factors For Social Infrastructure, Accommodation, And Entertainment Project Financings" criteria, we view the competitive position as fair. Our view of the market position is negative, as the COVID-19 pandemic and social distancing practices resulted in the cancellation of all major conventions at the height of the pandemic in the Boise Centre. However, management reports that the district will be able to facilitate smaller events with a more limited staff. As restrictions on social gatherings began to ease, the district resumed booking rescheduled events, having maintained contracts with most of the major conventions.

We view the district's market strength as positive, as we view the economy as strong, with good per capita EBI, and connection to the broad and diverse Boise metropolitan statistical area. 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 of facilities. We view 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 similar convention centers involves our assessment of market exposure risk. We view market exposure risk as high, reflecting the substantial decline in revenue in 2020 as result of the pandemic. We note that the 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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Criteria Guidance: Priority-Lien Tax Revenue Debt, Oct. 22, 2018