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Ratings

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Summary:

Capital City Development Corp., Idaho Greater Boise Auditorium District; 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	Upgraded

Rationale

S&P Global Ratings raised its long-term 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 stable.

The rating action reflects the application of our priority-lien tax revenue debt criteria, published Oct. 22, 2018 on RatingsDirect, which factors in both the strength and stability of the pledged revenue, as well as the general credit quality of the entity associated with the collection and distribution of pledged revenue (the obligor's creditworthiness).

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.

Security and use of proceeds

The bonds are secured by monthly lease payments that the district will make, 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 in our priority lien rating.

Credit overview

The city of Boise, which is essentially coterminous with the district, has experienced significant economic expansion, driven by diverse local sectors such as health care, technology, higher education, and government services. The district has likewise witnessed expansion, further spurred by expanded facilities completed in fiscal 2017, and has experienced an annual increase in both attendance and total event days in recent history. The district does not anticipate parity debt in the near future, so we expect debt service coverage will continue to grow in the medium term.

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

- Strong economic base, consistent with the city of Boise, which has experienced economic growth in recent history;
- Assessment of moderate volatility within the lodging tax revenue stream; and
- Strong additional bonds test (2.0x maximum annual debt service or MADS) and strong pledged revenue growth and coverage.

Economic fundamentals: strong

The district's economic base is coterminous with the city of Boise, which 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. The city and district are poised for more growth as residential and commercial developments are under way, as well as new hotels, which would continue to add more available rooms within the district.

Volatility assessment: Moderate

We assess the volatility of revenue to determine the likelihood of their availability 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 taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities. We analyze the national economic activity that we believe most closely represents the tax type over multiple economic cycles 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 from 1993-2014.

On a micro level, using the city's history of lodging tax, we believe there are no internal or external influences that could improve or worsen our base-line macro assessment. However, following the Great Recession, lodging tax revenue dropped about 23% from 2008-2010. We note that there was a 35% increase lodging tax revenue in the following three years. The economic base is diverse, in our view, and the hospitality industry services both travel- and business-related activity. Given this, we expect that lodging tax collections within the city will remain relatively stable throughout economic cycles, and we do not view the city as having any micro-level characteristics that alter our macro-level view of similar tax revenue.

Coverage and liquidity: very strong

The district's pledged lodging tax revenue increased by 21% in the past year to $7.66 million, which would cover MADS by 4.49x. For fiscal 2019, the district estimates pledged lodging tax will grow to $8.1 million, which would cover MADS by 4.74x. MADS is scheduled to occur in fiscal 2019.

Though the district's lodging tax revenue is pledged to the bonds first, excess revenue can be transferred to support the convention center's operations. As such, it is unlikely that the district will issue additional debt to the fullest extent of its additional bonds test of 2.0x MADS, and management has indicated it has no immediate plans to issue additional lodging tax bonds in the near future.

Bond provisions include a debt service reserve funded at the least of 10% of par, MADS, or 1.25x average annual debt service. Bondholders are also protected by an additional bonds test of at least 2x MADS for each of the most recent three years' revenue performance.

Obligor linkage: Close

Pledged revenue is collected by the Idaho State Tax Commission, which in-turn remits the funds to the district less a $2,700 quarterly administrative charge. We believe pledged revenue 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 centre's expansion in 2017, which more than doubled the facility's convention space and occupancy. The number of event days and yearly attendance has grown year after year. Fiscal 2019 may show a drop in attendance as the centre's largest event has shifted its dates to the next fiscal year, which will be reflected as normal in fiscal 2021. Despite this shift, events not hosted by the district such as Treefort Music Festival, and sporting events such as the X Games, among others, have been growing in attendance, which in turn will result in more hotel occupancy.

The district's proprietary fund, which tracks the facility's enterprise operations, which has operated at an average 24% 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 2018, the district returned a governmental fund surplus of $3.1 million, or 503% of 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 two fiscal years, the district's available reserves totaled $10.9 million in fiscal 2017 (91.5% of expenditures) and $14 million (879.4% of expenditures) in fiscal 2018. We consider these reserves to be very strong. For fiscal 2019, the district expects a surplus, though it expects to make larger than typical operating transfers to address some facility needs. The district has budgeted for an additional surplus in 2020.

We view the district's market exposure risk as low. Our analysis incorporates the likelihood of a 15% to 30% revenue downside case for hotels and convention centers during a severe recession. For example, in the U.S., this case will generally be informed by the experience from 2008 to 2010, the low point of the recent economic cycle. Local data suggests the district's experience could be similar, as it experienced a 23% drop in revenue during the Great Recession, but had a strong rebound with a 35% increase in the next three years.

We view the district's competitive factor as fair, reflecting a positive assessment of the district's market strength and asset condition, yet neutral market position and price elasticity. We view the district's market position as neutral, as it has no significant local competitors. However in the Pacific Northwest, Boise's closest regional competitors are Spokane, Tacoma, and Kennewick, which operates a smaller convention facility. The district's annual attendance is a fraction of Spokane's annual attendance, which operates multiple facilities. 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 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 existing facilities. We view the district's pricing elasticity as neutral, as the district has no pricing controls over the city's hotels.

Outlook

The stable outlook reflects our view of the district's growing underlying economy, as well as growth in its events and occupancy. The stable outlook also reflects the district's ability to maintain very strong reserves. We do not anticipate changing the rating during the outlook's two-year horizon.

Upside scenario

Should the district's competitive position improve, which would in part improve our assessment of the district, while the district maintains a very strong financial position, we could raise the rating.

Downside scenario

Should declines in pledged revenue or additional debt issuance significantly dilute coverage beyond current expectations, we could lower the rating.