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Summary:
Saratoga Springs, Utah; Sales Tax

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Summary:

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Credit Profile		
Saratoga Springs Sales Tax rev bnds ser 2011 due 06/01/2031		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term rating on Saratoga Springs, Utah's series 2011 sales tax revenue bonds. The outlook is stable.

The rating reflects our view of the city's:

- Strong income levels and additional access to employment opportunities throughout the broad Salt Lake metro area economy;
- Very strong 8.1x coverage by pledged revenues on maximum annual debt service (MADS) in fiscal 2013; and
- Good additional bonds test (ABT) requiring 2.0x MADS coverage by historical pledged revenue.

We believe the city's small population offsets the above strengths. We consider the population size an indication of the magnitude, depth, and diversity of the economy that supports the source of the pledged revenue for special tax revenue bonds.

The bonds are secured by the pledged 1.0% city local sales and use tax. The local sales and use tax is collected statewide by the state. The sales tax collections are redistributed on the basis of point of sale (50%) and by population of the local government (50%).

Located in Utah County, Saratoga Springs is about 30 miles south of Salt Lake City (the state's capital and economic center) and 22 miles northwest of Provo. At the time of review, city management reports that the city is about 20% built out. In fiscal 2013, city management estimates the population grew about 4.5% to approximately 22,079 from 21,138 in fiscal 2012. For fiscal 2014 and fiscal 2015, the city is estimating the population will increase to 23,019 and 23,960, respectively. The city is projecting the population will increase to 38,098 by 2022, and the Utah Governor's Office of Planning and Budget is projecting the population will increase to 70,386 by 2030. The city's median household effective buying income decreased slightly in 2013 but remained strong, in our view, at 119% of the national level. The most recent unemployment rate for Utah County (June 2014) is estimated at 4.0%, which is above the state level of 3.5% and lower than the national level of 6.1%.

In our view, pledged revenues increases have been very robust due to the city's recent population growth. Pledged revenue have increased by an average annual rate of about 12.1% since fiscal 2010 through fiscal 2013. For fiscal 2013, audited results show pledged revenue of about $2.4 million, or 8.1x coverage of MADS ($293,000). For fiscal 2014, the city is estimating pledged revenues of about $2.7 million, or 9.1x coverage of MADS. For fiscal 2015, the city is conservatively projecting pledged revenues will taper off slightly to $2.4 million, or 8.2x coverage of MADS. Within the city, sales tax contributors are moderately diverse, in our view, with the top 10 contributors representing about 25% of fiscal 2014 pledged revenue.

For fiscal 2013, sales and use tax revenue represented about 20% of total general fund revenue and 38% of general fund tax revenue. As a result, the city relies on pledged revenues to pay for general government operations, after payment of debt service.

In our view, the city has a good ABT requiring 2.0x MADS coverage by historical pledged revenue. We believe it would be difficult for the city to issue debt to the 2.0x ABT, which would reduce revenue available for operations by 40%. We understand that the bond provisions do not require a debt service reserve. In our view, the lack of a debt service is partly mitigated by the current very strong coverage. Management has indicated it has no plans to issue additional parity debt related to the general fund or sales tax. Saratoga Springs is currently looking into the possibility of issuing nonparity utility fund debt sometime in the future.

Outlook

The stable outlook reflects our anticipation that MADS coverage from pledged revenues will likely remain very strong during the two-year outlook time frame. Given our view of the 2.0x ABT and Saratoga Springs' lack of additional parity bonding plans, we could raise the rating if the city continues to experience substantial economic expansion and diversification. However, we do not believe the current growth is sufficient to warrant a raised rating during the two-year outlook period. We could lower the rating if pledged revenue coverage were to fall substantially.

Related Criteria And Research

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

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