

CREDIT OPINION

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Washoe (County of) NV

Update to credit analysis

Summary

[Washoe County, Nevada's](#) (Aa2 stable) strong management team and a robust balance sheet will help to offset the significant economic and financial challenges the county is facing because of the coronavirus pandemic. The state's closure of nonessential businesses, including resorts and casinos, and a halt to tourism have yielded steep revenue declines in March, April and May of 2020, and it will likely be a couple of years before the tourism and gaming economies recover fully. However, the county has excellent proactive budgeting and expense controls, as well as strong reserves and liquidity that allow it some cushion to respond to the financial shocks. The county also benefits from a very large tax base, that while still concentrated in tourism and gaming, has been diversifying over the past few years

Credit strengths

- » Healthy available reserves and liquidity supported by conservative management
- » Large service area and tax base that is the regional economic hub of northern Nevada

Credit challenges

- » Economy remains reliant on gaming and tourism, which have been especially hard hit by the pandemic
- » Cyclical excise taxes cause budget pressure in weak economic periods
- » Somewhat suppressed growth for property taxes, although improving, under limitations of the state's Abatement Act

Rating outlook

The stable outlook reflects our expectation that the county's management team will be able to navigate the pandemic while maintaining a strong balance sheet while the local economy, despite the hit to tourism and gaming caused by the pandemic, will continue to show healthy growth and diversification.

Factors that could lead to an upgrade

- » Continued and sustained diversification of the county's economy
- » Stability in the local economy and increases in its tax base
- » Sustained improvement in the county's financial profile including cash and fund balance

Factors that could lead to a downgrade

- » Material weakening of the county's financial profile
- » Significant longer-term economic contraction
- » Material reduction in the county's assessed value

Key indicators

Exhibit 1

Washoe (County of) NV	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$37,991,217	\$41,525,917	\$42,792,777	\$47,002,243	\$51,049,049
Population	439,914	445,551	450,486	456,936	479,171
Full Value Per Capita	\$86,361	\$93,201	\$94,992	\$102,864	\$106,536
Median Family Income (% of US Median)	100.6%	102.4%	101.5%	102.6%	102.6%
Finances					
Operating Revenue (\$000)	\$442,581	\$453,879	\$488,454	\$507,881	\$532,500
Fund Balance (\$000)	\$144,818	\$148,380	\$162,375	\$184,727	\$184,799
Cash Balance (\$000)	\$126,210	\$111,578	\$125,980	\$141,168	\$170,145
Fund Balance as a % of Revenues	32.7%	32.7%	33.2%	36.4%	34.7%
Cash Balance as a % of Revenues	28.5%	24.6%	25.8%	27.8%	32.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$153,136	\$143,544	\$135,690	\$127,691	\$122,322
3-Year Average of Moody's ANPL (\$000)	\$1,128,300	\$1,200,129	\$1,279,786	\$1,327,956	\$1,397,603
Net Direct Debt / Full Value (%)	0.4%	0.3%	0.3%	0.3%	0.2%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.0%	2.9%	3.0%	2.8%	2.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.5x	2.6x	2.6x	2.6x	2.6x

Source: Washoe County and Moody's Investors Service

Profile

Washoe County is located in northwestern [Nevada](#) (Aa1 negative) and includes the city of [Reno](#) (A1 stable). The county is the second largest economic center of the state with just over 469,800 residents.

Detailed credit considerations

Tax base and local economy: large tax base with some tourism concentration; strong recent trend of diversification

The coronavirus pandemic and the subsequent closure of nonessential businesses had a considerable impact on the county's local economy in the short-term, though development and diversification continues pointing to long-term. The county's large tax base, while still somewhat dependent on gaming and tourism, will continue to grow and diversify over the long term given recent investment from new businesses and the county's place as the regional economic hub for northern Nevada. The county is home to nearly 470,000 residents or 15% of the state's population as well as a major university, the University of Nevada Reno (Aa2). Recent investment from large tech companies is diversifying the tax base and local economy and is modestly reducing the area's traditional concentration in gaming and tourism. While the recent diversification has helped the county weather the impacts of the outbreak, the tourism and gaming economy has had a considerable slowdown though the industry in the county has come back closer to pre-recession levels with the county expecting operating at 66% of pre-recession levels in the near-term.

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After a large jump in unemployment in the area, Washoe County's employment has come back with a December 2020 unemployment rate of 5% which was considerably below the state at 9% and the US at 6.5% during the same time. The unemployment rate has remained low in spite of the county's 15% concentration in tourism and gaming which is above the national average of 11%, but below the state average of 25%. The Reno-Sparks Convention and Visitors Authority, the main tourism department for the county, budgeted a 20% decline in hotel and convention use revenue, however year to date revenue have been tracking 65% above budget. The extent to which the state and the country control the pandemic will dictate how quick the tourism and gaming industries will recover and add back value to the county's economy.

While tourism and gaming maintains a large footprint in the county, the Reno area has seen significant investment from tech companies over the last few years, including [Tesla](#) (B2 stable), [Panasonic](#) (Baa1 negative), [Switch](#) (Ba3 positive), [Apple](#) (Aa1 stable), [Alphabet](#) (Aa2 stable) and [eBay](#) (Baa1 stable). Tesla and Panasonic began producing batteries in the Gigafactory located just east of the county in Storey County. In Washoe County, large investments in manufacturing and distribution operations near the Gigafactory should continue to drive employment and housing in the Reno metro area.

The county has had a strong recovery post-recession. The county's full value (FV) grew for a seventh consecutive year, reaching a very large \$53.96 billion for 2020. Full value per capita is average, at \$120,000 (using 2020 FV), and median family income is at the national average, at 102.6% of the US for 2019. Both have been trending up following positive economic trends.

Financial operations and reserves: strong and stable reserves driven by good budget management

The county's financial profile is a credit strength that we expect to remain strong given the county's careful planning through the pandemic and strong conservative budget management. Financials improved in fiscal 2020 with available ending operating fund reserves (those designated as unassigned, assigned or committed in the general, special revenue and debt service funds plus available reserves in risk management, health benefits and equipment reserve funds) growing substantially to \$184.8 million (36.4% of revenue). This growth in reserves has been a conscious effort by management to rebuild reserves following the Great Recession to protect against future economic downturns and careful expenditure management during the pandemic. When the pandemic hit, the management team was proactive in its approach by targeting \$13 million in savings as well as deferring non-essential capital projects resulting in a large \$20.4 million addition to general fund balance.

We anticipate that the county's conservative approach will help achieve a stable 2021 given a conservative budget with projected revenue declines and the current revenue trend that is positive. The 2021 budget calls for a \$15.8 million use of fund balance, however we anticipate that this number will be drastically reduced given proactive expenditure cuts and healthy revenue trends. As with many local governments in Nevada, Washoe County relies on consolidated tax (Ctax) revenue (33% of general fund revenue) which is made up of formulaically distributed sales and use, government service, real property transfer, cigarette and liquor taxes. Due to the slowdown in travel, tourism and conventions and the periodic closure of casinos throughout the state, Ctax dropped considerably in March, April and May 2020, but returned to strong levels in June as casinos largely reopened. Despite the covid related shutdown, Ctax ended the year up 5% over 2019 and through December 2020 is up a remarkable 9.6% year over year from July through December 2019.

Positively the county received approximately \$20 million from the state's allocation of CARES Act funding to address coronavirus response spending which should help address any increased spending, however these funds will not be used to address revenue declines. The county is currently evaluating the best way to use this funding which it must do before December 30, 2021. The county's ability to use these funds and other available resources and budget cuts to manage this crisis will be a significant factor in future rating reviews.

In the fall of 2020 a settlement agreement was finalized for a decades old property tax dispute with residents of an area of the county called Incline Village that alleges overcharging of property taxes. The total settlement requires taxing entities in the county to pay back an estimated \$56 million in property taxes to the property owners within the area during the 2004-2006 tax years. The county's liability is expected to be \$24 million that it will pay to those who come forward to collect the reimbursement. The county has already put the money aside as restricted fund balance and we do not anticipate this having a material impact on the county's finances in the long-term.

Liquidity

Available liquidity grew to an even stronger 32.0% of operating revenue (\$170.1 million) as of fiscal 2020 and we anticipate cash to remain strong given the positive revenue trends. The county does not use cash flow notes or other liquidity measures to support operations.

Debt and pensions

The county's debt is manageable with portions of its GOLT debt supported by revenue streams other than general revenue. Post issuance, the county will have approximately \$188.3 in outstanding GOLT bonds with approximately \$167.2 million of those being self supported by other revenue streams. Net of self-supported debt, the county's debt burden is a modest debt burden of 0.2% of full value and 0.2 times operating revenue. We anticipate the county's debt burden will remain modest going forward.

Legal security

The majority of the county's debt is in the form of general obligation limited tax bonds secured by its full faith and credit pledge, subject to Nevada's statutory and constitutional limitations on overlapping levy rates for ad valorem taxes. Some of the county's GOLT bonds are additionally secured by other revenues. The county also has some variable rate debt and sales tax backed debt detailed below.

Debt structure

Most of the county's debt is fixed rate, GOLT debt with various additionally pledged revenue with the exception of Flood Control Bonds, Series 2006. The variable interest rate on the flood control bonds is equal to the sum of BMA (Bond Market Association) Swap Rate plus 0.70%. The approximately \$15.4 million of remaining principal had an interest rate of 2.527% which will be reset May 1, 2021. The county also has senior lien car rental bonds from 2008 that currently have a 3.56% interest rate set to reset December 1, 2022. Bonds backed by revenue from the Reno-Sparks Convention and Visitors Authority are paid from hotel and convention use fees with historical coverage over 2x though this did drop to 1.7x in 2020 due to the three month closure of hotels and casinos. Under conservative budget assumptions these bonds are expected to maintain 1.8x coverage which is reasonable given the rebound in revenue that county has already experienced.

The county also has outstanding sales tax bonds that are paid from a 0.125% county-wide sales tax dedicated for infrastructure. The bonds maintain a strong 2.5 times additional bonds test and no debt service reserve which is seen as a weakness. The bonds maintain strong coverage at well over 7.0 times and are expected to maintain high coverage despite projected revenue declines.

Debt-related derivatives

The county is not exposed to debt-related derivatives.

Pensions and OPEB

The county's pension liabilities are a credit weakness and will likely grow. Its pension is with the Nevada Public Employee Retirement System (PERS), a cost sharing, multiple-employer defined benefit plan. The county's share of the contribution to the plan in 2019 was \$34.4 million, a moderate 6.5% of operating fund revenue. However, the county's share of pension contributions were \$1.5 million short of Moody's calculation of what is necessary to prevent the county's pension liabilities from growing under plan assumptions, including the amount needed to cover normal costs and the interest on the unfunded liabilities.

The county's three-year adjusted net pension liability (ANPL) is high at 2.7% of full value and 2.6 times operating revenue based on an adjusted net pension liability of \$1.4 billion. The difference between this and the county's reported unfunded liability of \$446.2 million primarily reflects our use of a 3.5% discount rate compared to the plan's use of a 7.50% discount rate. This adjustment is made to improve comparability of reported pension liabilities among different issuers.

The county also provides other post-employment benefits (OPEB) of health insurance coverage to eligible retirees from various employee groups through several programs. Annual OPEB contributions in 2020 totaled \$20.3 million, or 4.9% of operating funds revenue. The county's adjusted net OPEB obligation at the end of 2020 was calculated at \$476.0 million. Given conservative return assumptions for the plan's assets, Moody's views the county's annual and overall OPEB liability as manageable.

ESG considerations

Environmental

Environmental considerations are not material credit drivers for the county's rating though we do note that according to Moody's affiliate Four Twenty Seven the county does have exposure to water stress though local water agencies have worked to secure water rights to mitigate this risk. The county also has low risks for heat stress and extreme rainfall.

Social

Social considerations are incorporated in our evaluation of the county's credit profile, including wealth and income levels, regional economic drivers and other factors. The rapid and widening spread of the coronavirus outbreak has led to spikes in unemployment and presents public health and safety risks

Governance

Nevada counties have an institutional framework score of "Aa," or strong. Revenue are moderately predictable. State-shared excise taxes ("consolidated taxes"), the second largest revenue source, are distributed under a long-standing legislative formula and are economically sensitive. Property taxes are subject to overlapping tax rate restrictions and abatement limits but may be adjusted by management. However, the property tax caps of up to 3% or 8%, by class, still allow for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, which are highly predictable. Management has a moderate ability to make spending adjustments despite an active union presence.

The county's management team is strong and operating performance benefits from conservative stewardship. Management also strategically reduced available reserves in the recent recession and annual deficits transitioned to surpluses. The county has exhibited a strong ability to manage through crises which should help it navigate the coronavirus pandemic and subsequent economic fallout.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits

Exhibit 2

Washoe (County of) NV

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$55,270,815	Aaa
Full Value Per Capita	\$115,347	Aa
Median Family Income (% of US Median)	102.6%	Aa
Notching Adjustments: ^[2]		
Economic Concentration		Down
Finances (30%)		
Fund Balance as a % of Revenues	34.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	6.9%	A
Cash Balance as a % of Revenues	32.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	3.6%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.2%	Aaa
Net Direct Debt / Operating Revenues (x)	0.2x	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.5%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.6x	A
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: US Census Bureau, Moody's Investors Service

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