S&P Global Ratings

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Summary:

Washoe County, Nevada; General Obligation

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Table Of Contents

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Credit Profile		
US$14.105 mil GO (ltd tax) flood control rfdg bnds ser 2021 due 12/01/2035		
Long Term Rating	AA/Positive	New
Washoe Cnty GO Ltd Tax		
Long Term Rating	AA/Positive	Outlook Revised

Rating Action

S&P Global Ratings revised its outlook to positive from stable and affirmed its 'AA' long-term rating and underlying rating (SPUR) to Washoe County, Nev.'s outstanding limited tax general obligation (GO) debt. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the county's anticipated $14.1 million limited tax GO flood control refunding bonds (additionally secured by pledged revenues).

The outlook revision reflects our view of the county's maintenance of surplus operating results supported by a positive operating revenue trend, even despite the pandemic, and a gradually diversifying tax base. While we believe that uncertainty remains regarding the pace and sustainability of economic recovery and the potential financial pressure of a large taxpayer appeal settlement, we believe that there is at least a one-in-three chance that we could raise the ratings if the county were to continue to report positive operations and a stable reserve position.

The county's full faith and credit secures the limited tax GO bonds, payable from all legally available funds, subject to statutory limitations on ad valorem taxation that limit the overlapping tax to no more than $3.64 per $100 of assessed value (AV). Currently, the total overlapping tax rate is $3.66 and includes 2 cents of the state rate exempt from the statutory limitation. The bonds are additionally secured by a 0.125% sales tax dedicated to flood control and public safety projects, authorized in 1998 pursuant to the state's Infrastructure Act. The tax is imposed upon the gross receipts of any retailer from the sale of tangible personal property sold within the county, less a percentage collected by the state for the costs of collection. The lien of the series 2021 bonds on the additionally pledged sales tax revenue is subordinate to the lien of the county's outstanding series 2016 senior flood bonds. Based on fiscal 2020 collections, pledged sales tax receipts provide 7.8x coverage on the senior bonds. After payment of debt service, excess revenues can be used for other allowable projects. Proceeds from the series 2021 refunding bonds will be used to refund the county's outstanding series 2006 limited tax GO flood control bonds for interest cost savings.

Several of the county's outstanding limited tax GO bonds are additionally secured by 15% of all income and revenue derived by the county's consolidated tax (C-Tax) revenue, consisting of certain sales taxes, excise taxes on cigarettes and liquor, a tax on the licensing of motor vehicles, and real property transfer taxes. Additionally, the county's limited tax GO Reno-Sparks Convention & Visitors Authority (RSCVA) bonds are additionally secured by a 2% state-imposed license tax and a 6% local license tax levied upon the rental of transient lodging within the county assigned to RSCVA, less certain costs of collection, as well as gross revenues derived from the operation of the convention and recreational facilities owned by the county and operated by RSCVA, net of facility maintenance and operation expenditures. We rate each of these bonds to the county's limited tax GO pledge. In our opinion, any limitation imposed on Nevada County's ability to raise revenue is embedded in the financial and economic conditions, and in the factors that we assess in the general creditworthiness of the county.

The county will have approximately $119 million in net direct debt outstanding at fiscal year-end 2021.

Credit overview

Although the region has made efforts to diversify its tax base and the high-tech footprint has been growing in the county, tourism represents a key role in Washoe County's tax base and operating revenue. While the state officially reopened as of June 1, 2021 and travel has begun to increase nationwide, some question remains regarding the pace of recovery and potential ramifications of a future resurgence. Washoe County's operating revenue has grown consistently despite the economic slowdown, including its C-tax revenue, and the county's budget reflects continued growth. The fiscal 2022 budget also reflects a $40 million expenditure related to the settlement of a legal case involving property tax assessments in Incline Village/Crystal Bay, $23.8 million of which the county has restricted in its general fund balances to cover its proportionate share of the settlement. While the other overlapping taxing entities are expected to make up their shares over the four-year payback period, the budgeted amount will result in a reduction in the county's available reserves in fiscal 2022. The settlement agreement requires initial payments between July 1, 2021 and Dec. 31, 2021 to refund all verified claims from original property owners who still own the parcels. More clarity as to the court's opinion of the payback process and any potential future litigation is expected in the near-term, and while we do not expect the settlement to materially weaken reserves and operations, we are continuing to monitor the outcome. As reflected in the positive outlook, we believe that the county's financial trajectory is favorable and that we could raise the ratings within our two-year outlook horizon should the county navigate the pending economic and financial pressures and its positive operating performance persists.

The ratings further reflect our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with operating results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2020 level of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 71.4% of total governmental fund expenditures and 15.4x governmental debt service, and access to external liquidity we consider exceptional;
- Very strong debt and contingent liability profile, with debt service carrying charges at 4.6% of expenditures and net direct debt that is 24.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 78.0% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We analyzed both the authority's and county's ESG risks relative to its economy, management, financial measures, and debt-and-liability profile. Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. We believe COVID-19 presents above-average risk to the visitor industry and tax base, which could dampen revenue collections. Absent the implications of COVID-19, we consider the environmental and governance risks to be in line with our view of the sector standard. Additionally, we view the nearly 11% population growth over the past 10 years as a social opportunity, as it provides underlying economic strength to drive employment opportunities when compared with areas of the country experiencing population stagnation or loss.

Positive Outlook

Upside scenario

We could raise the rating if the county sustains positive operations and a very strong fund balance position, further demonstrating the ability to weather economic cycles, while also absorbing the costs related to the Incline Village/Crystal Bay settlement.

Return to stable scenario

Should operating performance weaken as a result of a future resurgence, a slower than anticipated pace of recovery, or a larger than expected payment related to the taxpayer appeal settlement, resulting in a material reduction in reserves, we could return the outlook to stable.

Credit Opinion

Strong economy

We consider the county's economy strong. Washoe County, with an estimated population of 472,069, is in the Reno, NV MSA, which we consider broad and diverse. The area's leading employers are concentrated in the downtown core of Reno, the county seat. Due to the county's proximity to Lake Tahoe and Northern California, tourism anchors the regional economy, including hotel casinos, special events, and outdoor recreation. The county is home to several casinos, which account for six of the 15 largest employers. The leading employers are the Washoe County School District, Renown Regional Medical Center, and the county itself. The county has a projected per capita effective buying income of 100.5% of the national level and per capita market value of $124,345. Overall, the county's market value grew by 6.2% during the past year to $58.7 billion in 2022. The county's unemployment rate was 7.8% in 2020, representing an increase from the prior year due to the spike in unemployment filings spurred by the recession and social distancing efforts related to the COVID-19 pandemic.

We note that in recent years, the state and county have made efforts to diversify the taxing bases beyond the volatile gaming and hospitality industries, and the county has experienced significant investment in the manufacturing and high-tech sectors. Recent and planned developments within the county include Deantronics' medical device technology campus, Apple Inc.'s new cloud computing data center, Google's Northern Nevada facility, and Tesla Motors' lithium-ion battery factory, among several others. As of December 2020, the major employment sectors in the Reno-Sparks MSA, which is roughly coterminous with the county aside from a small portion of Storey County, were well diversified, with the largest categories consisting of trade (15%), professional and business services (15%), leisure/hospitality/casinos (13%), and government (12%). Despite a temporary slowdown due to the pandemic, new development persists, bringing additional jobs and stimulating property value growth in the county. Additionally, management indicated that it has begun to see an increase in tourism, as the state officially reopened on June 1, 2021. For more information on the coronavirus' effect on U.S. public finance, see S&P Global Economics' report "Economic Outlook U.S. Q2 2021: Let The Good Times Roll", published March 24, 2021, on RatingsDirect.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. Highlights of key policies and practices include:

- The county's conservative revenue and expenditure assumptions based on multiple years of historical data, along with data from various external resources for economic data and an external consultant for C-tax projections;
- Quarterly review of budget-to-actual reports with the governing board;
- The maintenance of a comprehensive five-year operating forecast and capital improvement plan with funding sources identified for capital projects, although the county's most recent multi-year financial plan has been delayed due to the pandemic. We understand that the county is currently working to update its forecasting model and will resume its five-year forecasts in the near term;
- A formal investment management policy that goes beyond state guidelines, with quarterly reviews of investment holdings and earnings with the investment committee;
- The adoption of a formal debt management policy to help guide large financing decisions, which is silent on variable-rate issuances; and
- The adherence to its formalized reserve policy of maintaining a 10%-17% fund balance, including a $3 million stabilization reserve. In accordance with its replenishment requirement, the county replenished its $3 million stabilization reserve in fiscal 2021 after it was reallocated in fiscal 2020 for response costs related to the COVID-19 pandemic.

Weak budgetary performance

The county had operating surpluses of 4.9% of expenditures in the general fund and 3.1% across all governmental funds in fiscal 2020. Our assessment accounts for the fact that we expect budgetary results could deteriorate from 2020 results given the ongoing uncertainty of the pace of recovery and the county's reliance on relatively cyclical revenues for operations. We note that our calculations include adjustments to depict ongoing operations of the county, including an increase to ongoing expenditures for recurring transfers out of the general fund to its non-major governmental funds, as well as a downward adjustment to transfers in to the general fund to account for a one-time transfer made from the risk management fund to offset operating revenue losses.

At the onset of the pandemic, the county braced itself for a decline in operating revenues and a general fund deficit, which it worked to minimize through various cost containment measures, including a hiring freeze, personnel cost reductions without layoffs, and scaling back transfers to its capital projects fund. However, despite the pandemic and economic slowdown, the majority of the county's primary revenue streams experienced growth in fiscal 2020, with general fund revenues increasing by a cumulative 4.7% from fiscal 2019, contributing to the positive operating performance. The positive revenue trend continued into fiscal 2021, with estimated revenues increasing 2.5% from the fiscal 2020 level, including a 4% increase in C-tax revenues. Current estimates project a 6.8% surplus at fiscal year-end 2021. In fiscal 2021, the county received $20.1 million in CARES revenue and half of its $91.4 million allocation of the American Rescue Plan Act. The county expects to receive the remaining portion in fiscal 2022 and is still working on a plan for the use of proceeds.

For fiscal 2022, the county is budgeting for a 9.6% drawdown, reflective of continued growth in each of its primary revenue streams and a larger increase in expenditures. Expenditure assumptions include increased personnel costs for several new positions (many of which are funded through other ongoing revenues), increased transfers and costs related to its homelessness assistance initiatives, and a $40 million expenditure related to the potential outcome of the Incline Village/Crystal Bay settlement. We note, however, that the county has not yet budgeted for potential offsetting property tax revenue from tax withholdings from the overlapping taxing entities, as detailed below, as the details of the pay outs are still tentative and dependent on court decisions. As the county has historically outperformed its budgets at year-end due to conservative estimates, we believe it is likely that the county will end the year better than budgeted in fiscal 2022.

The Incline Village/Crystal Bay taxpayers have contested their 2004, 2005, and 2006 property valuations, expressing that the state should perform its statutorily mandated equalization function. The settlement dismisses the county's appeal case and requires payment by the county of an estimated $56 million in refunds to the taxpayers over a three-year period (fiscal years 2022 through 2024), although this amount is subject to change dependent upon the number of claims filed by the taxpayers. Of such amount, $23.8 million represents the county's proportionate share of the overpayment of taxes and accrued interest, with the remaining $32.2 million representing the combined share of the overlapping taxing entities. As of fiscal year-end 2020, the county has reserved $23.8 million in its restricted general fund balance to make the refund payments during the repayment period, with the goal of completing the refund payments in two years.

The other overlapping taxing entities include the Washoe County School District, North Lake Tahoe Fire Protection District, Incline Village General Improvement District, and the State of Nevada. The county board of commissioners approved the withholding by the county treasurer of tax distributions to the taxing entities to accumulate their portions of the refunds paid under the settlement. We understand that the Washoe County School District has objected to the terms of the settlement agreement and claims that the county should be responsible for the full amount of the refund, although the court denied such motion in March 2021. At this time, it is uncertain whether the school district or other overlapping taxing entities will pursue litigation against the county and the potential outcome of the disputes. However, given the county's strong reserve and very strong liquidity position and proactive efforts to incorporate potential refunds into its upcoming budgets, we do not believe its budgetary performance, flexibility, or liquidity will materially weaken in the near term.

Strong budgetary flexibility

Washoe County's budgetary flexibility is strong, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2020 level of 19% of operating expenditures, or $69.0 million.

While we note that the county has a track record of outperforming its budgets at year-end, the county's fiscal 2022 budget indicates that reserves could deteriorate from its current level, particularly dependent upon the outcome of the Incline Village/Crystal Bay settlement. As of fiscal 2020, the county has restricted $23.8 million to cover its portion of the settlement. The fiscal 2022 budget conservatively reflects a $40 million expenditure for the settlement, which would exhaust the county's related restricted fund balance and draw from its available assigned fund balance to cover much of the remaining settlement amount. We note, however, that the county expects to be repaid over time through withholdings of property tax revenue to the overlapping taxing entities.

Additionally, in fiscal 2020, the county reallocated its $3 million stabilization reserve to supplement response costs related to the pandemic. Fiscal year-end estimates for fiscal 2021 show the replenishment of the stabilization reserve and is budgeted to be maintained in fiscal 2022. Overall, we expect the county's reserve position to remain at least strong and in excess of its 10% reserve minimum.

Very strong liquidity

In our opinion, Washoe County's liquidity is very strong, with total government available cash at 71.4% of total governmental fund expenditures and 15.4x governmental debt service in 2020. We believe the county has exceptional access to external liquidity, with its practice of issuing limited-tax GO bonds, gas tax bonds, and sales tax bonds frequently over the past 15 years. We do not consider the county's investments aggressive, as most of its investments are investment-grade U.S. government securities.

Included in the county's outstanding debt burden are several privately placed agreements, including its series 2020B limited-tax GO bonds (additionally secured by pledged C-tax revenues), which were purchased by Key Government Finance Inc. in the par amount of $9.7 million. We have reviewed the documents associated with each of its alternative financing issuances and believe the events of default to be standard, and while acceleration of principal is not expressly prohibited, it is not a remedy of default and we do not believe the agreements to pose a significant liquidity risk to the county. Additionally, the county has about $26.5 million of governmental activities variable-rate debt outstanding as of June 30, 2020, representing about 13% of total direct debt.

Very strong debt and contingent liability profile

In our view, Washoe County's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.6% of total governmental fund expenditures, and net direct debt is 24.3% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 78.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. The county reports that it has no additional debt plans at this time, but it may continue to draw upon its state revolving fund loan, as needed. The county is authorized to issue up to $50 million and could issue an additional $23 million under its enterprise fund. We do not believe the county's debt metrics would materially weaken if it issues its full authorization.

Finally, the county is contingently liable for the Reno-Sparks Convention and Visitor Authority's GO bonds, which equates to about 33% of the county's total debt burden. The RSCVA has historically generated sufficient revenue to cover its annual debt service by more than 1.1x during the past three years and the county has not had to make any payments on the RSCVA's debt historically. As such, we have considered this debt self-supporting. However, given the slowdown in convention center activity and the ongoing uncertainty in recovery from the pandemic, we believe that the self-supporting status could be pressured should RSCVA revenue materially decline due to a reduction in convention center activity. We understand that it is anticipated that, in an event of default, the RSCVA resources would be reallocated to retire the bonds with a limited influence on the county's operations.

Pension and OPEB highlights:

- In our opinion, a credit weakness is Washoe County's large pension and OPEB obligation, without a plan in place that we believe will sufficiently address the pension obligation.
- The pension plan that the county participates in is relatively underfunded, and we believe this could lead to potentially significant future cost increases.
- The county makes payments toward the OPEB trust for its OPEB liabilities and has historically paid its actuarially determined contribution, although we understand that the county actuaries calculated a reduction in contributions in fiscal 2021, which has helped to offset budgetary pressure. As of fiscal year-end 2020, the balance in the OPEB trust fund maintained a balance of $252 million. Additionally, the legal flexibility to alter OPEB benefits limits the potential adverse credit implications from its OPEB liability.

Washoe County contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost-sharing, multiple-employer, noncontributory, defined benefit public employee retirement plan administered by PERS to provide retirement benefits, death benefits, and disability benefits to their beneficiaries. As of June 30, 2020, the PERS plan was 77% funded and the county's proportionate share of the net pension liability was $422.3 million. The county made its full annual required pension contribution in 2020, totaling 6.1% of total governmental expenditures. The county's 2020 actuarially determined contributions for the PERS fell short of static funding and minimum funding progress, indicating that the liability is increasing annually. Additionally, the county participates in three OPEB plans and the funded ratio of the largest plan was 51.8% and its net OPEB liability was $235.2 million. The county's OPEB contributions represented 4.2% of total governmental expenditures, bringing the combined pension and OPEB carrying charges to 10.3%, which we consider relatively elevated.

Strong institutional framework

The institutional framework score for Nevada counties is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 24, 2021)		
Washoe Cnty ltd tax GO bldg bnds ser 2015 due 03/01/2035		
Long Term Rating	AA/Positive	Outlook Revised
Washoe Cnty GO ltd tax rfdg bnds (additionally secured by pledged rev) ser 2012B dtd 08/28/2012 due 03/01/2013 2016-2027		
Long Term Rating	AA/Positive	Outlook Revised
Washoe Cnty GO Ltd Tax		
Unenhanced Rating	AA(SPUR)/Positive	Outlook Revised

Ratings Detail (As Of June 24, 2021) (cont.)		
Washoe Cnty GO Ltd Tax (MBIA) (MBIA of Illinois)		
Unenhanced Rating	AA(SPUR)/Positive	Outlook Revised
Washoe Cnty GO (ltd tax) pub safety rfdg bnds ser 2016B due 03/01/2036		
Long Term Rating	AA/Positive	Outlook Revised
Reno-Sparks Convention & Visitors Auth, Nevada		
Washoe Cnty, Nevada		
Reno-Sparks Convention & Visitors Auth (Washoe Cnty) GO (ltd tax) (Washoe County) ser 2021 due 07/01/2032		
Long Term Rating	AA/Positive	Outlook Revised

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.