

## CREDIT OPINION

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### New Issue

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## Washoe County, NV

New Issue: Moody's assigns Aa2 to Washoe County, NV's GOLT Bonds, 2016B

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Washoe County, Nevada's General Obligation (Limited Tax) Public Safety Refunding Bonds (Additionally Secured by Pledged Revenues) Series 2016B. At this time, Moody's affirms the Aa2 rating on the county's previously issued general obligation limited tax bonds outstanding in the amount of \$188.4 million, including the current sale. The county has approximately \$41.0 million of parity General Obligation (Limited Tax) debt not rated by Moody's.

The Aa2 rating reflects the county's position as a regional economic center in northern Nevada, large tax base that continues to benefit from new commercial investment, a diversifying employment base, well-managed financial operations and improving reserve levels. The rating also incorporates the county's low debt levels.

### Credit Strengths

- » Regional center in northwest Nevada has benefited from substantial private investment in recent years which will add to tax base and employment diversity
- » Sound financial management practices and healthy reserve levels
- » Low level of tax-supported debt

### Credit Challenges

- » Still high dependence on gaming industries that continue to face competition
- » Revenue structure susceptible to economic cycles

### Rating Outlook

The outlook on the county's long term ratings is stable. The outlook primarily reflects our expectation that the county's solid financial performance will continue and reserves will remain in line with its rated peers over the forecast horizon. The stable outlook also reflects our expectation that economic recovery in the region will likely outpace the nation over the medium-term.

### Factors that Could Lead to an Upgrade

- » Significant and sustained increase in available reserves and operating revenues

- » Substantial growth and diversification of local economy and tax base; improvement in wealth measures

## Factors that Could Lead to a Downgrade

- » Significant economic downturn with sustained revenue declines and budgetary imbalance
- » Depletion of reserves below median levels for similarly-rated large counties

## Key Indicators

Washoe (County of) NV	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 39,025,288	\$ 36,215,355	\$ 35,114,598	\$ 35,194,150	\$ 34,834,443
Full Value Per Capita	\$ 91,738	\$ 84,240	\$ 81,223	\$ 80,573	\$ 78,455
Median Family Income (% of US Median)	107.1%	100.7%	100.7%	100.7%	100.7%
Finances					
Operating Revenue (\$000)	\$ 298,690	\$ 280,997	\$ 278,779	\$ 287,313	\$ 303,110
Fund Balance as a % of Revenues	28.6%	22.4%	24.1%	28.5%	27.6%
Cash Balance as a % of Revenues	32.8%	29.4%	30.7%	32.7%	17.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 280,737	\$ 182,715	\$ 170,455	\$ 162,513	\$ 153,419
Net Direct Debt / Operating Revenues (x)	0.9x	0.7x	0.6x	0.6x	0.5x
Net Direct Debt / Full Value (%)	0.7%	0.5%	0.5%	0.5%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	3.1x	3.6x	4.0x	3.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.4%	2.9%	3.3%	3.3%

## Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

## Detailed Rating Considerations

### Economy and Tax Base: Large economy in northwest Nevada showing sustained improvement; substantial private-sector investment will add to employment diversity

The recovery continues for Washoe County's large economy, and we expect that the momentum will continue in the state's second largest economy. This will be supported by important drivers including increased population, improved tourism and new commercial investment. The county is home to an estimated 444,008 residents (March 1, 2015), or about 15% of the state's population within an area encompassing 6,600 miles.

The county's largest employers offer stability and are somewhat diverse in sectors such as education, healthcare, local government, casinos and manufacturing entities. Importantly, new large manufacturing, distribution and data center activity in or adjacent to the county, is adding further diversity to the county's employment base and will likely support an increased pace of residential growth. The major companies currently investing in the area include Tesla, Apple and Switch. Over the long-term, we believe the county's competitive business costs, low living costs, continued industry investment and healthy in-migration will support above average economic growth relative to Aa2-rated counties nationally.

The county's unemployment rate improved from the year prior to 5.6% (November, 2015), and remains below the state (6.2%) but still above the nation (4.8%).

The county's tax base is large and growth has picked up in recent years increasing 8% in 2015 and again in 2016 reaching \$40.98 billion. Although well above the median for similarly-rated counties nationally, this recent tax base valuation is still about 20% below

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peak levels back in 2009. Estimates for fiscal 2017 indicate a fourth year of growth, increasing by about 7%. Full value per capita of \$92,294 is above the median for Aa2-rated counties. Resident income levels for the county are average with median family income levels at 100% of the US average.

### **Financial Operations and Reserves: Operating revenues reflecting rebound in economy; combined reserves remain stable**

The county is conservatively managed, primary operating revenues are rebounding, and a recent increase in reserve levels has improved the county's financial position. Reserves in the county's combined operating funds (defined as General Fund and Debt Service Fund) compare favorably to similarly-rated counties nationally. Positively, combined operating reserves are now stable after a recent draw on debt service fund reserves. This draw down was done in order to comply with recent legislation limiting the amount local governments may accumulate in that particular fund. The county notes they are now in compliance with the lower cap (equal to the subsequent year's debt service) and no further debt service fund draws are expected going forward. The county ended fiscal year (FY) 2015 with its third consecutive general fund operating surplus as both property tax and consolidated tax revenues came in above conservatively budgeted expectations. Property tax revenues (49% of FY 2015 general fund revenues) increased for the second time (5.9%) since at least 2009 and consolidated taxes (30% of FY 2014 general fund revenues) increased a solid 9.4% over the prior year. Total general fund expenditures increased by roughly 6% as the county added back positions, largely public safety employees, to keep up with resident growth. Fiscal 2015 operating reserves plus available reserves in other funds (health benefits fund, risk management fund, equipment services fund) ended equal to 27.6% of operating revenues (\$83.6 million).

Going forward, we expect that the county's currently healthy reserve levels and sound financial profile positions it well to handle additional service demand from an increasing population base. The county's commitment to maintaining budget balance and solid reserve levels has been an important factor in Moody's credit evaluation of Washoe County.

The county balanced the current year's budget (fiscal 2016) without significant additional reductions in expenditures given economic conditions are projected to continue to support continued growth in revenues in the budgeted horizon. Although the county originally budgeted to draw down the unassigned fund balance to its minimum fund balance policy (between 8% and 10% of expenditures), the county is confident FY 2016 reserves will again outperform budgeted expectations. Further, the county is in process of updating its internal fund balance policy to target a minimum available general fund balance equal to 10 – 17% and also apply this target to all government funds. We would view enactment of this policy recommendation as a credit positive.

The county's economy has demonstrated consistent improvement and we believe the conservative management team will continue to take timely and prudent action in order to generate a stable fiscal position going forward. Similar to most major municipalities, Washoe will continue to face its share of budget challenges due to the rising pension, health and benefit costs.

### **LIQUIDITY**

The county's general fund liquidity is lower than the prior year, but still at solid levels since 2010 at \$45.1 million, or 15.0% of revenues but just below the median of other large Aa2-rated counties nationally. Including cash in funds that are legally available to the general fund (risk management fund, health benefits fund and equipment services fund), cash is satisfactory and equal to 29.0% of operating revenues.

### **Debt and Pensions**

Washoe County's direct debt burden is low at 0.6%, inclusive of a portion of GOLT debt paid fully from additionally pledged revenues outside the county's operating funds. The county's gross direct debt burden represents 2.3% of full value of the tax base and 0.9 times operating revenues from fiscal year 2015.

The combined property tax rates in the county were at \$3.64 per \$100 of assessed value as of 2015, equal to the statutory cap for overlapping tax rates. Overlapping rates include levies for operations and debt service and combined rates remained about stable in recent years. Importantly, levies for non-debt purposes would be reduced first for overlapping rates to comply with the statutory limit of \$3.64 in a compression situation.

### **DEBT STRUCTURE**

The county's direct debt amortizes at an average 59.0% of principal within ten years and all of the county's GOLT debt is fixed rate 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 \$18.1 million of remaining principal had an interest rate of 2.527% which will be reset May 1, 2016.

#### **DEBT-RELATED DERIVATIVES**

The county is not party to any interest rate swap.

#### **PENSIONS AND OPEB**

Washoe County's pensions are provided through the Nevada Public Employee Retirement System (PERS), a cost sharing, multiple-employer defined benefit plan. The county's Moody's adjusted net pension liability (ANPL) is elevated at an average of 2.8% of full value and 3.8 times operating revenues for fiscal years 2012-14. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities, including netting pension contributions from self-supporting essential utilities. The adjustments are not intended to replace reported liability information, but to improve comparability with other rated entities.

The county also provides other post-employment benefits (OPEB) of health insurance coverage to eligible retirees from various employee groups through several programs. The unfunded accrued liabilities across the OPEB plans was approximately \$196 million county-wide as of 2014 and generally have been funded based on the calculated actuarially required contribution (ARC) basis each year.

#### **Management and Governance**

The county's management team is conservative as reflected in stable operations through the Great Recession. Management typically outperforms budgeted expenditures and also budgets conservatively for economically sensitive consolidated tax and property tax revenues. The county demonstrated willingness to adopt sizable operating adjustments in the recent recession, including cuts to staff and compensation, reducing capital investments given a slowdown in growth.

Nevada counties have an institutional framework score of 'Aa' or strong. Revenues are driven by state-shared excise taxes governed by a legislative formula, and property taxes may be adjusted by management subject to statutory overlapping tax rate limits. Expenditures are predictable and management has the ability to make significant spending adjustments.

#### **Legal Security**

The current offering is secured by the county's full faith and credit pledge, subject to Nevada's constitutional and statutory limitations on overlapping levy rates for ad valorem taxes. The bonds are additionally secured by a dedicated 15% of county's portion of Consolidated Tax revenues.

#### **Use of Proceeds**

Proceeds will be used to refund previously issued debt for annual debt service savings.

#### **Obligor Profile**

Washoe County is located in northwestern Nevada (Aa2 stable) and includes the city of Reno. The county is the second largest economic center of the state.

#### **Methodology**

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### WASHOE (COUNTY OF) NV

<u>Issue</u>	<u>Rating</u>
General Obligation (Limited Tax) Public Safety Refunding Bonds (Additionally Secured by Pledged Revenues) Series 2016B	Aa2
Rating Type	Underlying LT
Sale Amount	\$9,790,000
Expected Sale Date	03/09/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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