

RatingsDirect®

Summary:

Washoe County, Nevada; General Obligation

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| Credit Profile | | |
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| US\$9.79 mil GO (ltd tax) pub safety rfdg bnds ser 2016B due 03/01/2036 | | |
| Long Term Rating | AA/Stable | New |
| Washoe Cnty GO Ltd Tax | | |
| Unenhanced Rating | AA(SPUR)/Stable | Affirmed |
| Long Term Rating | AA/Stable | Affirmed |

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Washoe County, Nev.'s series 2016B general obligation (GO) refunding limited-tax bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the county's existing GO bonds. The outlook is stable.

The ratings reflect our view of the following credit characteristics of the county:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 64.4% of total governmental fund expenditures and 18.8x governmental debt service, and access to external liquidity we consider exceptional;
- Strong debt and contingent liability position, with debt service carrying charges at 3.4% of expenditures and net direct debt that is 41.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

The series 2016B GO refunding bonds are secured by the county's full faith and credit pledge and are payable from a pledge to levy ad valorem property tax on property within the county, subject to a statutory limit. The total combined ad valorem property tax rate by all overlapping governmental units within the boundaries of a county are statutorily limited to \$3.64 per \$100 of assessed value (AV), which is currently levied. According to the county, state statute provides a priority on property taxes for the repayment of GO bonds. Also pledged to the series 2016B refunding bonds is 15% of consolidated taxes, which generally consist of sales taxes, excise taxes on cigarettes and liquor, motor vehicle license taxes, and real property transfer taxes. We view the GO pledge as the stronger of the two pledges.

Strong economy

We consider the county's economy strong. Washoe County, with an estimated population of 444,008, is located in the Reno MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income

of 103.9% of the national level and per capita market value of \$92,294. Overall, the county's market value grew by 17.6% during the past year to \$41.0 billion in 2016. The county unemployment rate was 6.3% in 2015.

The county's economy continues to rebound, with unemployment decreasing the past several years. 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 is a leading employment sector. The University of Nevada-Reno, local government, and Renown Regional Medical Center are among the largest employers. The regional economy is projected to continue to diversify, particularly with the addition of the Tesla lithium-ion battery factory, which is slated to start production next year.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key strengths include a policy of maintaining a minimum general fund balance for working capital between 8% and 10% of expenditures and a general fund balance for stabilization of \$3 million. The county also has a debt management policy and an investment policy and regularly reports its holdings to the board. The county utilizes internal trend analysis and external information to make revenue and expenditure assumptions and takes into account current trends that may impact future results. The county performs multiyear forecasting of revenues, and elected officials review budget-to-actual performance quarterly. The county also maintains a five-year rolling capital plan with funding sources identified.

Strong budgetary performance

Washoe County's budgetary performance is strong in our opinion. The county had slight operating surpluses of 0.9% of expenditures in the general fund and of 1.3% across all governmental funds in fiscal 2015. General fund operating results of the county have been stable during the past three years, with a result of 2.8% in 2014 and a result of 1.0% in 2013.

The operating results have been adjusted from audited information to account for recurring transfers and excluding one-time expenditures. We consider the annual transfer out from the general fund to other nonmajor funds as ongoing expenditures. The county is currently projecting to use reserves to balance operations in fiscal 2016, however, the county expects to end the year with better-than-budgeted results. We expect general and total governmental funds operations to remain close to balanced, based in part on the county's historical performance of ending the year better than budgeted.

The county's primary revenue sources, consolidated taxes and property taxes, have increased at a modest pace in each of the past two fiscal years, and we project those sources will continue to increase in fiscal 2016. The county has mostly maintained revenues in line with expenditures the past several years. Its biggest general fund expenditure, public safety, is projected to increase for the fifth consecutive year in 2016.

Very strong budgetary flexibility

Washoe County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 17% of operating expenditures, or \$50.1 million.

The available fund balance includes the assigned and unassigned general fund balance and about \$3 million of general fund balance committed to fiscal stabilization. In addition, general fund expenditures have been adjusted upward for recurring transfers out. Although the county budgeted for a general fund deficit in fiscal 2016, we expect the general fund balance to remain above 15%.

Very strong liquidity

In our opinion, Washoe County's liquidity is very strong, with total government available cash at 64.4% of total governmental fund expenditures and 18.8x governmental debt service in 2015. In our view, the county has exceptional access to external liquidity, if necessary.

Due to the frequency of debt issuances and diverse types of debt, we believe the county has exceptional access to external liquidity. We anticipate that the liquidity profile will remain very strong as a result of the county's adequate budgetary performance. The county's \$33 million of governmental activities variable-rate debt outstanding (as of June 30, 2015) represented about 11% of total direct debt.

Strong debt and contingent liability profile

In our view, Washoe County's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.4% of total governmental fund expenditures, and net direct debt is 41.1% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is a positive credit factor, in our view.

The county's direct debt includes GO bonds for governmental and business activities, special assessment bonds, and revenue bonds. The county also has a roughly \$119 million contingent liability for the Reno-Sparks Convention and Visitors Authority bonds. Revenue from the Reno-Sparks Convention and Visitors Authority currently supports annual debt service.

In our opinion, a credit weakness is Washoe County's large pension and OPEB obligation. Washoe County's combined required pension and actual OPEB contributions totaled 15.5% of total governmental fund expenditures in 2015. Of that amount, 11.1% represented required contributions to pension obligations, and 4.4% represented OPEB payments. The county made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 72.0%.

The county has been contributing more than the pay-as-you-go OPEB amount. For fiscal 2014, the county's contribution represented 104% of the actuarial determined annual required contribution to its largest plan. The county participates in four OPEB plans, the largest of which was 43% funded as of the most recent valuation date. The other three plans are funded between 33% and 121%.

Strong institutional framework

The institutional framework score for Nevada counties is strong.

The institutional framework score is based on the state's legislative and functional environment under which these

local governments operate.

Outlook

The stable outlook reflects our view of the county's very strong budget flexibility and strong budgetary performance, supported by strong financial practices. For these reasons we do not expect to change the rating during our two-year outlook horizon.

Upward scenario

Upward rating potential would likely follow economic expansion and diversification, coupled with no deterioration in other factors.

Downward potential

If its budgetary flexibility and performance deteriorate, coupled with increased debt burden and a weakening in the economy, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

| Ratings Detail (As Of February 24, 2016) | | |
|--|-----------------|----------|
| Washoe Cnty ltd tax GO bldg bnds ser 2015 due 03/01/2035 | | |
| Long Term Rating | AA/Stable | Affirmed |
| 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/Stable | Affirmed |
| Washoe Cnty GO Ltd Tax | | |
| Unenhanced Rating | AA(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

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