S&P Global
Ratings

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Summary:

Reno-Sparks Convention & Visitors Authority, Nevada
Washoe County; General Obligation

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Credit Profile		
US$65.475 mil GO (ltd tax) (Washoe County) ser 2021 due 07/01/2032		
Long Term Rating	AA/Stable	New
Washoe Cnty GO Ltd Tax		
Long Term Rating	AA/Stable	Affirmed
Washoe Cnty GO Ltd Tax (MBIA) (MBIA of Illinois)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Washoe County, Nev.'s anticipated $65.5 million series 2021 limited-tax general obligation (GO) Reno-Sparks Convention & Visitors Authority (RSCVA) refunding bonds (additionally secured with pledged revenues). At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the county's existing GO bonds. The outlook is stable.

The county's full faith and credit secures the 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. In our opinion, any limitation imposed on Washoe 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 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. Pledged facility operating revenue consists only of the RSCVA-operated facilities that are owned by the county, including the Convention Center, Livestock Events Center, and golf course, as well as interest earnings. Pursuant to the cooperative agreement between the county and RSCVA, a revenue stabilization fund is required to be funded at $4.7 million. This stabilization fund is fully funded and would be accessed for debt service before the county's backstop would take effect and has never been accessed by the RSCVA. Proceeds from the series 2021 bonds will be used to refund the county's existing series 2011 and series 2019 A-B limited-tax RSCVA GO bonds for interest cost savings without extension of maturities.

The 'AA' long-term rating reflects the county's underlying creditworthiness, which is the stronger assessment of the pledges, in our view. Based on fiscal 2020 actuals and the preliminary debt service schedule, the additionally pledged revenue alone provides 2.03x maximum annual debt service (MADS) coverage on the refunding bonds, although the budgeted pledged revenue estimates for fiscal 2021 reflect a decline in coverage to about 1.86x. Although the county has not had to apply its property tax levy to the RSCVA GO bonds to date, we believe that the county's backstop provides additional credit uplift.

Our assessment of the RSCVA's additionally pledged revenues include a deviation from S&P Global Ratings' published criteria. We borrowed elements of our "Key Credit Factors For Social Infrastructure, Accommodation, And Entertainment Project Financings" criteria, published Sept. 16, 2014, specifically the Market Exposure and Competitive Position assessment, to assess the authority's creditworthiness. As the authority is a primarily tax-funded public operating entity, we believe there are key differences between the authority and a private hotel or convention center project financing, particularly insofar as the authority is an actively managed public entity with the ability to manage revenues and expenditures over the long term. Nevertheless, we consider the authority's degree of exposure to market risk and the proportionate share of market-sensitive revenues in our credit analysis.

The county will have approximately $121 million in net direct debt outstanding at fiscal year-end 2021 and the series 2021 bonds will represent the RSCVA's only outstanding direct debt backed by the county.

Credit overview

Despite the economic slowdown, the county reported positive operating results in fiscal 2020, attributed largely to conservative budgeting practices and better-than-anticipated revenue collections, including its relatively volatile C-Tax revenues. Although the region has made efforts to diversify its tax base, Washoe County's tax and employment bases are anchored in tourism given the region's concentration in hospitality and gaming, exposing it to budgetary pressure as a result of the significant reduction in economic activity in response to the COVID-19 pandemic. While revenue trends for fiscal 2021 remain favorable to date, the county remains conservative in its projections and has continued its cost containment efforts. We believe that the county will continue to face budgetary challenges in the near-term as lingering effects of the pandemic could curb the recent growth rate and longer-term consumer behavior. However, the stable outlook reflects our opinion that the county's strong reserve and liquidity positions provide a sufficient cushion to offset near-term budgetary pressure without deteriorating credit quality, with additional enhancement from its very strong financial management practices.

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 deteriorate 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 24.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of

market value and rapid amortization, with 80.6% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefits (OPEB) obligation and the lack of a plan to sufficiently address the pension obligation; and

- Strong institutional framework score.

The authority

RSCVA was established to acquire, operate, and promote public convention center and recreational facilities within its boundaries, which are roughly coterminous with those of the county. Primarily due to the pandemic-induced slowdown in travel and large commercial events, the authority reported a roughly 20% decline in general fund revenue in fiscal 2020, contributing to a deficit result. Despite the recent use of reserves, the authority's liquidity and reserve position remains strong, in our view. The authority's fiscal 2021 budget projects an additional deficit, which we estimate could deplete its unrestricted general fund reserves, although management indicates that revenue is currently tracking positively, and it has made various expenditure adjustments through furloughs and advertising reductions. In fiscal 2020, its occupancy rate was 64.2%, which was just below the 2019 level of 67.7%. Management expects occupancy rates to improve in the current fiscal year but continues to conservatively budget for lower rates. Although we believe COVID-19's shocks are temporary, the recovery period is dependent upon the duration of social distancing requirements and consumer demand. For more information on S&P Global Economics' view on the recovering U.S. economy, see "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect.

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 exposure to the visitor industry and tax base, which could dampen revenue collections. Absent the implications of COVID-19, we consider the ESG risks to be in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the ratings if the lingering recessionary pressure weakens economic indicators, such as the unemployment rate to a level we consider high, and result in a sustained operational imbalance, causing the county to materially reduce its available reserves to levels we no longer consider strong.

Upside scenario

Should the county's tax base continue to diversify away from the volatile hospitality and gaming industries, contributing to sustained operational balance throughout the economic recovery while strengthening reserves to very strong levels in line with those of its higher rated peers, we could raise the ratings.

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 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. Leading the list 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 102.3% of the national level and per capita taxable value of $117,082. The county unemployment rate was 3.2% in 2019, below the national average; however, due to the spike in unemployment filings spurred by the recession and social distancing efforts related to the COVID-19 pandemic, this figure rose in 2020. In April 2020, the county's monthly unemployment rate peaked at 20.4% before moderating to 5.0% in December.

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 fiscal 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 (14%), leisure/hospitality/casinos (14%), professional and business services (13%), and government (13%).

Overall, the county's taxable value grew by 8.3% over the past year to $55.3 billion in 2021, with AV exhibiting a similar increase to $19.3 billion. Preliminary estimates assume continued growth in both values by 2.2% in 2022. While development temporarily slowed early in the pandemic, the county reports that it has not seen a material decline in the growing technology sector.

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;
- A formal investment management policy that goes beyond state guidelines, with reviews of investment holdings and earnings with the investment committee quarterly;
- 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. However, the county's stabilization reserve was reallocated in fiscal 2020 for response costs related to the COVID-19 pandemic.

Weak budgetary performance

Washoe County's budgetary performance is weak in our opinion. The county had operating surpluses of 4.9% of expenditures in the general fund and of 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 in the near term. 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.

While management indicated that operating revenues in fiscal 2021 continue to track positively against its prior year figures, it continues to adopt conservative revenue and expenditure estimates considering the ongoing fiscal uncertainty. The fiscal 2021 budget projects an 8.8% decline in revenue, modest growth in expenditures, and a total deficit of about 5% of budgeted expenditures. However, the adopted budget excludes $20.1 million in coronavirus relief aid that the county received in early fiscal 2021, which will be used to offset eligible expenditures. Given the county's historically conservative projections, we expect the county to outperform its budget at year-end, although this is dependent on the depth and duration of the economic recovery.

Washoe County's general fund revenue is composed largely of property taxes, representing roughly 48% of total revenue in 2020, followed by C-Tax revenue at nearly 33%, which we consider relatively volatile and dependent on consumer spending. C-Tax revenue had been increasing annually prior to the pandemic by an annual average of 7%. In light of the economic slowdown, the county amended its C-tax projections downward; however, audited figures for fiscal 2020 reflect a 3.7% increase from fiscal 2019. For fiscal 2021, the county has budgeted for a nearly 26% reduction in C-tax but indicated that current revenues are tracking above fiscal 2020 levels. Property taxes, which we view as typically more stable, are projected to increase by 6% in fiscal 2021 due to ongoing development within the county. We note that the county's overlapping property tax rate is currently at the statutory maximum of $3.64 per $100 of AV, excluding 2 cents of the state rate exempt from the statutory limitation, leaving the county with little revenue-raising flexibility. However, the county reports that it could apply its $1.0188 operating rate toward debt service if needed and debt service has statutory priority on property tax revenues.

Finally, the county board approved a settlement agreement in August 2020 related to a large property tax appeal, which will require the county to refund taxpayers over a three-year period. The Incline Village/Crystal Bay taxpayers had been contesting 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 from over 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. 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 the county's 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, we calculate that, the county's fiscal 2021 budget and conservative multi-year projections indicate that reserves could deteriorate from its current level. In fiscal 2020, the county reallocated its $3 million stabilization reserve to supplement response costs related to the pandemic. The county's stabilization reserve policy includes a replenishment provision, which the county has historically followed, and management indicated it would continue this practice in coming years. Although we note that the county could utilize a portion of its unrestricted reserves to close potential budget gaps, we expect the available reserve to remain above 10%, a level we consider strong and in line with the county's formal policy.

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. In our view, the county has exceptional access to external liquidity, if necessary.

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 the majority of the county's 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 24.6% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 80.6% 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 the county uses the loans to the fullest extent.

Finally, the county is contingently liable for the series 2021 RSCVA general obligation bonds, which equates to about 33% of the county's total debt burden. The RSCVA has historically generated sufficient revenues 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 as self-supporting. However, given the current economic environment, 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. We will monitor the RSCVA's ability to sufficiently cover its debt and the potential impact on the self-supporting status. The authority confirmed that it does not have any new money debt plans for the near-term.

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 cost increases in the future.
- 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
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 5, 2021)		
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
Washoe Cnty GO (ltd tax) pub safety rfdg bnds ser 2016B due 03/01/2036		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.