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Ratings

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Summary:

Washoe County, Nevada; General Obligation

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Credit Profile		
US$14.11 mil GO (ltd tax) rfdg bnds ser 2022A due 03/01/2030		
Long Term Rating	AA/Positive	New
US$10.745 mil GO (ltd tax) consolidated tax rfdg bnds ser 2022B due 03/01/2027		
Long Term Rating	AA/Positive	New
Washoe Cnty GO Ltd Tax		
Long Term Rating	AA/Positive	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Washoe County, Nev.'s anticipated $14.1 million series 2022A limited tax general obligation (GO) refunding bonds and $10.7 million series 2022B limited tax GO refunding bonds (additionally secured by pledged revenues). At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the county's outstanding limited tax GO debt. The outlook is positive.

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). The current total overlapping tax rate is $3.66, which includes 2 cents of the state rate that is exempt from the statutory limitation. The series 2022B bonds (and 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. Along with cash contributions from the refunded bonds' debt service funds, proceeds from the current issuances will be used to refund certain of the county's outstanding bonds for interest cost savings without extension of maturity, with the series 2022A bonds refunding the county's existing series 2012A and series 2019 bonds, and the series 2022B bonds refunding the existing series 2012B bonds.

The county's outstanding limited tax GO flood control 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. 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 the aforementioned bonds to the county's limited tax GO pledge, which reflects our view of the county's underlying creditworthiness. 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 $118 million in net direct debt outstanding at fiscal year-end 2022.

Credit overview

Although the region has made efforts to diversify its tax base and the high-tech footprint has been growing in Washoe County, tourism represents a key role in its tax base and operating revenue. After a slowdown due to the pandemic, management reports that it has observed a rebound in tourism, with several large events resuming in 2021. 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. Additionally, 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 fiscal 2022 budget 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. While we do not expect the settlement to materially weaken reserves and operations, we are monitoring 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 rating further reflects our view of the county's:

- Diversifying local economy in the Reno MSA, with very strong wealth and income indicators, and which has demonstrated consistent growth despite the pandemic;
- Very strong financial management assessment;
- Positive operations and expectations of maintaining at least strong budgetary flexibility and liquidity despite the budgeted drawdown in fiscal 2022;
- Very strong debt burden with no new money debt plans for the near term, and elevated pension liabilities; and
- Strong institutional framework score.

Environmental, social, and governance

We analyzed both the authority's and county's ESG risks relative to its economy, management, financial measures, and debt-and-liability profile. We believe the lingering COVID-19 economic and social impacts presents above-average risks to the visitor industry and tax base, which could dampen revenue collections. Additionally, we view the 15% population growth during 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. We consider the environmental and governance risks to be in line with our view of the sector standard.

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 due to 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

Growing tax base in the tourism-based region of Nevada, with ongoing diversification and recovery despite the ongoing pandemic

Washoe County, with an estimated population of 486,492, 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'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. The county's unemployment rate has since moderated to levels that are in line with pre-pandemic trends, equating to 3.5% in September 2021.

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 area include NanoTech Energy's graphene manufacturing facility, 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 September 2021, 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%), professional and business services (14%), leisure/hospitality/casinos (14%), 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.

Very strong financial management policies and practices

Highlights of key financial management 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 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.

Consistently positive operations and maintenance of a very strong reserve position despite budgeted draws for a large taxpayer appeal settlement

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 general fund revenues increasing 9.7% from the fiscal 2020 level, including a nearly 18% increase in C-tax revenues, which management attributed to a more diverse tax base. We note that our calculations of the county's general fund performance 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.

For fiscal 2022, the county is budgeting for a 9.6% draw down, due primarily to 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 payouts are still tentative and replenishment may lag. Multi-year projections conservatively reflect additional drawdowns in fiscals 2023 and 2027, but we note that the county's forecasting practice includes significant contingencies that typically do not come to fruition, resulting in better-than-budgeted performance. Overall, we expect the county's reserve position to remain at least strong and in excess of its 10% reserve minimum.

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 during 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. The county had reserved $23.8 million in its restricted general fund balance in fiscal

2020 to make the refund payments during the repayment period, with the goal of completing the refund payments in two years. The fiscal 2022 budget reflects a $40 million expenditure for the settlement, which would exhaust the county's related restricted fund balance and draw from its available unassigned fund balance to cover much of the remaining estimated 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.

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 district court denied such motion in August 2021. The school district has appealed the recent dismissal, but at this time, the potential outcome of the dispute is uncertain. 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.

Moderate debt burden, with elevated pension liabilities

Included in the county's outstanding debt burden are several privately placed agreements. 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 permitted in one of the agreements, the outstanding principal amount is relatively small compared to budget. Therefore, we do not believe the agreements to pose a significant liquidity risk to the county. Additionally, the county has about $9.5 million of governmental activities variable-rate debt outstanding as of fiscal 2022, representing about 8% of total direct debt. 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 intends to issue the remaining $23 million of authorization under its enterprise fund in calendar-year 2022. 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. We note that the county participates in a state pension plan and contributes its annually required contributions as determined by the plan.
- 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 2021, the balance in the OPEB trust fund maintained a balance of $273 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 $425.6 million. The county's 2021 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 71.8% and its net OPEB liability was $107.7 million.

Strong institutional framework

The institutional framework score for Nevada counties is strong.

Washoe County, Nev.: Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	103			
Market value per capita ($)	122,711			
Population		478,355	473,156	471,024
County unemployment rate(%)			7.8	
Market value ($000)	58,699,235	55,270,815	52,567,924	
Ten largest taxpayers % of taxable value	4.0			
Weak budgetary performance				
Operating fund result % of expenditures		16.8	4.9	4.7
Total governmental fund result % of expenditures		13.0	3.1	4.5
Strong budgetary flexibility				
Available reserves % of operating expenditures		36.6	19.4	21.3
Total available reserves ($000)		127,344	69,026	72,339
Very strong liquidity				
Total government cash % of governmental fund expenditures		95	71	67
Total government cash % of governmental fund debt service		2,222	1,538	1,594
Very strong management				
Financial Management Assessment	Strong			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.3	4.6	4.2
Net direct debt % of governmental fund revenue	21			

Washoe County, Nev.: Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2021	2020	2019
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	83			
Required pension contribution % of governmental fund expenditures		6.0		
OPEB actual contribution % of governmental fund expenditures		3.6		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of December 17, 2021)		
Washoe Cnty ltd tax GO bldg bnds ser 2015 due 03/01/2035		
Long Term Rating	AA/Positive	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/Positive	Affirmed
Washoe Cnty GO (ltd tax) flood control rfdg bnds ser 2021 due 12/01/2035		
Long Term Rating	AA/Positive	Affirmed
Washoe Cnty GO (ltd tax) pub safety rfdg bnds ser 2016B due 03/01/2036		
Long Term Rating	AA/Positive	Affirmed
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	Affirmed

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.