

Bulletin:

Washoe County, NV's Strong Reserves And Very Strong Liquidity Position It To Withstand Potential Litigation Settlement

August 25, 2020

CENTENNIAL (S&P Global Ratings) Aug. 25, 2020--S&P Global Ratings was notified of a Supplement to the Preliminary Official Statement for Washoe County, Nev.'s series 2020 limited-tax general obligation bonds (Nevada Shared Radio System bonds) following the issuance of the rating on July 2, 2020. However, we do not believe this updated information will affect our view of the county's creditworthiness in the near future.

The subsequent posting details developments in the ongoing property tax litigation relating to the Incline Village/Crystal Bay. The Incline Village/Crystal Bay taxpayers had been contesting their 2003, 2004, and 2005 property valuations, expressing that the state should perform its statutorily mandated equalization function. In October 2019, the District Court ruled in favor of the taxpayers and directed the county to recalculate land values for 2003 through 2005 and provide refunds with interest to the taxpayers. The county had been appealing the ruling to the Nevada Supreme Court.

On Aug. 4, 2020, the county board approved a settlement agreement with the taxpayers that would dismiss the case and require payment by the county of an estimated \$56 million in refunds to the taxpayers over a three-year period (fiscals 2022 through 2024). 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, including the Washoe County School District, North Lake Tahoe Fire Protection District, Incline Village General Improvement District, and the state of Nevada. The settlement agreement depends on approval of the State Board of Equalization, the State Department of Taxation, and the District Court.

Based on the settlement agreement, the county calculates that its annual refund payment to the taxpayers will be approximately \$8 million, or 2.3% of general fund expenditures, with the first payment due July 1, 2021. The county intends to set aside surplus revenues annually for future payments and will continue to implement expenditure adjustments to offset the refunds. If approved, the county plans to reduce future property tax distributions to the overlapping taxing entities to fund their proportionate shares of the refunds. However, the proportional reductions have not yet been agreed to by the overlapping taxing entities.

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 \$56 million in refunds. At this time, it is uncertain whether the school district or other overlapping taxing entities

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will pursue litigation against the county and the potential outcome of the disputes. Therefore, we believe there may be some potential for the county to provide the full \$56 million refund, which the county estimates would not exceed \$20 million annually, or nearly 6% of expenditures, in payouts. 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.

For more information on the county's general creditworthiness, please see our article published July 2, 2020, on RatingsDirect.

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