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Ratings

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Summary:

Nevada County, California; Appropriations

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Credit Profile		
US$25.0 mil lse rev bnds (Cnty Oper Ctr) ser 2019 dtd 02/06/2019 due 10/01/2039		
Long Term Rating	AA/Stable	New
Nevada Cnty APPROP (AGM)		
Unenhanced Rating	NR(SPUR)	Withdrawn

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Nevada County, Calif.'s series 2019 lease revenue bonds, with a par of $17.2 million. The outlook is stable. At the same time, we withdrew our long-term rating and underlying rating (SPUR) on the county's series 2011 lease revenue bonds, which were defeased in September 2018.

The rating reflects our view of the county's strong economy, its strong financial management profile, and its very strong financial flexibility. Since 2013, the county's assessed value has grown by 38.5%, which translates into $207,000 per capita in 2019, which is one of the highest ratios among counties in the state. Furthermore, the county has undertaken a number of reforms to its financial management practices, such as the 2016 adoption of a debt policy that places quantitative restrictions on debt issuance and the 2015 adoption of a 15% minimum reserve policy, which improves our assessment of its policies to good from standard (and contributes to our view that the county's overall management profile is strong). In addition, the county has experienced several years of positive operations, contributing to a sustained general fund balance in excess of 30% of expenditures. The rating also reflects that the county's economy is dependent on tourism, its exposure to potential wildfire risk, and growing pension costs, all of which constrain the rating.

Security and use of proceeds

The series 2019 lease revenue bonds represent an interest in lease rental payments made by the Nevada County Finance Authority, as lessee, to Nevada County, as lessor, for use of the Rood Administrative Center. Payments, which are governed by a lease agreement, are subject to abatement in the event of damage or destruction of the leased assets, but the county has covenanted to maintain rental interruption insurance of at least two years and the properties meet our criteria for seismic risk during the life of the obligations. The county pledges to make payments on Oct. 1 and April 1 (90 and 270 days after budget adoption), which we believe mitigates budget adoption risk. We have assigned a rating one notch below our view of the county's general creditworthiness to take into account the appropriation risk inherent to the lease structure.

Revenue from the series 2019 lease revenue bonds will be used for the construction of a new County Operations Center, which will house both an operations building and various bulk material storage facilities. The land for the center was purchased in 2011.

Credit overview

The ratings reflect our opinion of the following credit factors for the county:

- Strong economy, with projected per capita effective buying income at 115% of the national level and market value per capita of $207,044;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 40% of operating expenditures;
- Very strong liquidity, with total government available cash at 49.5% of total governmental fund expenditures and 24.6x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.0% of expenditures and net direct debt that is 27.9% 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.

Strong economy

We consider Nevada County's economy strong. The county has an estimated population of 99,155. The county has a projected per capita effective buying income of 115% of the national level and per capita market value of $207,044. Overall, the county's market value grew by 11.7% over the past year to $20.5 billion in 2019. The county's unemployment rate was 4.1% in 2017.

The majority of the county lies in the Sierra Nevada mountain range and its county seat--Nevada City--lies approximately 60 miles northeast of Sacramento. The county's largest city--Truckee--has a population of approximately 16,500 and is located on the county's eastern border, approximately 30 miles southwest of Reno. Given the county's location to the east of the San Francisco Bay Area, it serves as a ski and mountain tourism hub, with several major highways running through it, including I-20 and I-80. Approximately two thirds of its population lives in unincorporated areas of the county, though the county's largest employer is Sierra Nevada Memorial Hospital, which is located in Grass Valley.

Strong budgetary performance

Nevada County's budgetary performance is strong in our opinion. The county had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 5.2% in fiscal 2018. Of the general fund's $63.2 million in revenue in fiscal 2018, $44.1 million (70%) is associated with taxes and assessments, $7.8 million (12%) is associated with charges for services, and $3.9 million (6%) is associated with intergovernmental receipts.

Although the county budgets for a 1.0% general fund draw down in fiscal 2019, we believe that the county may end higher due to the fact that modest deficits were also budgeted for fiscals 2017 and 2018, while the county realized surpluses in both years. Since 2015, the county has typically posted general fund surpluses of around 3% of expenditures. These differences are primarily driven by conservative budget practices, such as not budgeting for reappropriated funds and budgets that assume that all vacancies are filled, while this is not the case in practice.

Very strong budgetary flexibility

Nevada County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 40% of operating expenditures, or $29.4 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

In addition to the county's assigned and unassigned fund balances of approximately $22.2 million, the county has maintained a general reserve of $7.1 million, which we include in our assessment of its available fund balance. The general reserve has remained at this level since 2015, which is when it adopted a fund balance policy. Prior to this date, the county maintained approximately $4 million in its general reserve balance. The general reserve is intended to address emergencies or economic shocks and withdraws can only occur during the budget adoption process, unless an emergency is declared.

Very strong liquidity

In our opinion, Nevada County's liquidity is very strong, with total government available cash at 49.5% of total governmental fund expenditures and 24.6x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

As the county has issued debt in the past 20 years, such as a 2011 COP that was defeased in early fiscal 2019, we consider it to have strong access to external liquidity. We do not anticipate that the county will significantly reduce liquidity, as it has no plans to do so. We do not consider its investments aggressive, as the county is primarily invested in U.S. government and U.S. government agency securities.

The county does not have variable-rate debt and while it does have approximately $12 million in direct-purchase debt, we do not believe that it poses a contingent liquidity risk, as there are no acceleration provisions. The county's two direct placements were made with Bank of America in fiscal 2016. The first placement was for a solar equipment lease and we estimate that the current principal outstanding is $10.3 million, with a final maturity date in fiscal 2037. The second placement was to cover various other capital projects and we estimate that the current amount outstanding equals $1.9 million, with a final maturity date in fiscal 2032.

Strong management

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

Our financial management assessment has been revised to good from standard due to the county's 2015 adoption of a 15% minimum reserve policy and the 2016 adoption of a debt management policy that details both the types of debt the county can issue as well as quantitative limits on the debt. The county is in compliance with both policies. Other highlights of the county's management practices include:

- Utilization of both historical and county assessor data to formulate its revenue and expenditure assumptions;
- Robust budget planning and adoption process that spans from January to June, as well as quarterly budget updates

to the board;

- Lack of significant long-term financial planning;
- Capital planning that starts with a five-year horizon and is refreshed annually but does not include a rolling five-year horizon; and
- Compliance with a policy to invest in the county pool, with quarterly updates provided to the board.

Much of the county is located heavily forested mountainous areas, which can be susceptible to forest fires. Although only a few dozen homes were burned within the county in 2018, counties to the north of Nevada--such as Butte--experienced massive wildfires. To address this risk, the county has undertaken a variety of actions to mitigate fire risk, such as passing an ordinance that requires the clearing of all vegetation within 100 yards of private property, hiring three additional fire inspectors, and anticipates receiving $10 million grant by the office of emergency services to engage in various fire mitigation efforts. Despite these factors, we believe that fire risk remains for the county, though we do not make adjustments to their management score. (For more information on our view of environmental factors, please see "Through The ESG Lens: How Environmental, Social, And Governance Factors Are Incorporated Into U.S. Public Finance Ratings", published Oct. 10, 2018 on RatingsDirect.)

Very strong debt and contingent liability profile

In our view, Nevada County's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.0% of total governmental fund expenditures, and net direct debt is 27.9% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, which is in our view a positive credit factor.

With the county's typical practice of cash-funding capital projects, policy of capping debt service at 8% of expenditures, and plan to retire 64% of debt within the next 10 years, we expect that the county's debt profile will continue to be a positive credit factor. Furthermore, we note that the county does not currently have future plans to issue debt beyond the series 2019 lease revenue bonds.

Nevada County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 13.8% of total governmental fund expenditures in 2018. Of that amount, 11.3% represented required contributions to pension obligations, and 2.5% represented OPEB payments. Given the large size of the county's pension and OPEB carrying charge, we view it as a negative credit factor.

The county participates in a cost-sharing, multiple-employer defined-benefit miscellaneous and safety pension plans managed by the Public Employees' Retirement System (CalPERS). Under Governmental Accounting Standard Board (GASB) Statement No. 67 and 68, the county's net pension liability (NPL) measured as of June 30, 2017, was $156.2 million for the miscellaneous plan and $29.1 million for the safety plan. (Both plans utilize a discount rate of 7.15%.) As of the same date, the CalPERS miscellaneous plan maintained a funded level of 64.5% using its fiduciary net position as a percentage of the total pension liability. For fiscal year 2017, the county's actuarially determined contribution for both plans was $18.2 million, or 11.3% of total government funds expenditures. The county made 100% of its annual required pension contribution in 2017.

We also note that, effective June 30, 2019, CalPERS will use a layered 20-year, level dollar amortization policy on new gains and losses, down from the layered 30-year, level percent approach CalPERS has used since 2013. While the new approach will lead to more rapid contribution increases and increased payment volatility, shorter amortization will provide a faster recovery to plan funding following years of poor investment performance or upward revisions to pension liability, which we view favorably from a credit perspective. However, we expect that the county will be able to manage these increases.

The county undertook four steps beginning in 2006 to reduce its pension liability--(1) it established pension reserves; (2) it established a pension irrevocable trust; (3) it negotiated increased employee contributions; and (4) it reduced the number of its employees. The county's pension reserves currently amount to $4 million, which is in addition to its irrevocable trust that currently contains $2.4 million for pensions. In addition, the county negotiated increases in employee contributions, with 88% of employees now contributing at least 50% of the normal cost of the pensions. Finally, the county reduced its staff by 25% in 2006, which reduced its pension liability.

In addition to its pension funds, the county maintains an OPEB irrevocable trust, which has $26.6 million (49% of liability) as of 2019. As of fiscal 2017, the county has an OPEB liability of $53.9 million.

Strong institutional framework

The institutional framework score for California counties required to submit a federal single audit is strong.

Outlook

The stable outlook reflects our view that the county's economy will remain very strong, that reserves will remain above the county's policy of 15% of expenditures, and debt levels will remain at levels we consider strong. We do not expect to change our ratings within the next two years.

Upside scenario

Should the county strengthen its management policies to be in-line with higher-rated peers, and ameliorate its exposure to long-term pension costs, we could raise the rating.

Downside scenario

We could lower the rating if the county's economy were to significantly weaken, its general fund post negative operations in the absence of what we considered a credible plan to restore balance, or if reserve levels fall below its policy of 15% of expenditures.