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Reno, NV's GO Bond Ratings Lowered To 'A' On Structurally Imbalanced Budgets And Softening Tax Revenue Streams

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SAN FRANCISCO (Standard & Poor's) July 22, 2010--Standard & Poor's Ratings Services lowered its long-term rating and underlying rating (SPUR) to 'A' from 'A+' on Reno, Nev.'s outstanding general obligation (GO) debt. Standard & Poor's also assigned its 'A' long-term rating to the city's series 2010 limited tax GO sewer refunding bonds. The outlook is negative.

"The ratings are based on the city's ongoing structurally imbalanced budgets and softening tax revenue streams," said Standard & Poor's credit analyst Bryan Moore.

Consolidated tax revenues are collected statewide and returned to local governments by a formula that factors in population and tax base growth. They are a major source of the city's general fund revenues, representing 25% of the city's general fund for fiscal 2009. Consolidated tax revenue for fiscal 2009 fell 15% from fiscal 2008 to \$43.5 million; the city estimates that collections will decrease further by 12.4% in fiscal 2010 and an additional 4.0% in fiscal 2011. If the trend continues, fiscal 2011 will be the fourth consecutive year of declines. Management attributes the drop in collections to softness in construction and consumer spending, as well as a decline in visitors to the area spanning at least the last five consecutive years.

The city has historically maintained a good financial position, in our opinion. However, the city has finished with general fund operating deficits over the last three audited fiscal years. In fiscal 2009, the city reported a general fund operating deficit of \$4.4 million after transfers and an unreserved general fund balance of \$10 million, representing 5.4% of expenditures. We understand from management that the city expects to finish fiscal 2010 with a \$2.1 million operating deficit mainly due to softening consolidated tax revenues. According to management, the unreserved general fund balance is estimated to be, in our opinion, a good \$6.3 million, or 4% of general fund expenditures. The city projects it will close fiscal 2011 with an additional deficit and a balance of \$6 million, or 3.6% of expenditures. This would constitute the fifth consecutive drawdown on the general fund.

We understand that proceeds from the series 2010 bonds will be used to restructure the city's existing series 2008 medium-term bonds so as to reduce debt service over the near term.

Reno is a tourism- and gaming-based city located along Interstate 80, about 25 miles from Lake Tahoe. The city serves as the county seat of Washoe County, and its 218,000 residents make up about 53% of the county's population.

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USPF Criteria: [GO Debt](#), Oct. 12, 2006

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