Fitch Ratings

Fitch Rates Nevada's $112MM GO Bonds 'AA+'; Outlook Stable

Fitch Ratings-New York-04 October 2017: Fitch Ratings has assigned a 'AA+' rating to the following state of Nevada general obligation (GO) limited tax (LT) bonds:

--$82.125 million Capital Improvement Bonds, series 2017A;
--$5.815 million Natural Resources and Refunding Bonds, series 2017B;
--$7.845 million Open Space, Parks, Natural Resources and Refunding bonds, series 2017C;
--$6 million (Nevada Municipal Bonds Bank Project No. 90), series 2017D;
--$6.005 million Safe Drinking Water Revolving Fund Matching Bonds, series 2017E;
--$3.82 million Water Pollution Control Revolving Fund Matching Bonds, series 2017F.

The bonds are expected to sell via competitive bid on or around Oct. 17, 2017.

In addition, Fitch has affirmed the following state of Nevada ratings:

--Issuer Default Rating (IDR) at 'AA+';
--$1.4 billion in outstanding GO LT bonds at 'AA+';
--$83.7 million lease revenue certificates of participation at 'AA'.

The Rating Outlook is Stable.

SECURITY
The bonds are a general obligation of the State of Nevada, to which its full faith and credit are pledged. Debt service is supported by a statewide property tax levy that is subject to both constitutional and statutory limitations. State law further provides that if property tax revenues are insufficient to pay

GO debt service, moneys are to be borrowed from the general fund and repaid from future property tax revenues to the extent other moneys are not available.

ANALYTICAL CONCLUSION

Nevada's 'AA+' IDR and GO ratings reflect the state's conservative liability position, strong revenue and expenditure frameworks, and historically responsive financial practices, as well as its success in managing rapid population growth and development.

Economic Resource Base

Concentrated in the Las Vegas/Clark County area, the state economy remains largely based on gaming and entertainment although economic development efforts are having some success in adding diversity. Growth in the state's economy is accelerating with employment growth across a broad range of sectors, positive trends in tourism and gaming, and some improvement in the housing market.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Nevada's revenues, primarily sales and gaming related taxes, have historically reflected its tourism-based economy, demonstrating some economic sensitivity. Fitch anticipates Nevada's revenues growth will be consistent with historical experience given continued economic expansion and may exhibit lower economic sensitivity following enactment of tax measures that broadened the taxing base. Nevada maintains complete legal control over revenues.

Expenditure Framework: 'aa'

The state maintains solid expenditure flexibility with a low carrying cost burden and the broad expense-cutting ability common to most U.S. states. Education and Medicaid remain key expense drivers and continued budget management is expected to be necessary to keep spending within projected revenues.

Long-Term Liability Burden: 'aaa'
Nevada's liabilities are low and below the median for states. GO debt is funded by a dedicated property tax levy and does not place a burden on the general fund. The state refunded debt through the downturn to keep debt service within this tax levy. Pension funding has stabilized after recession-related declines.

Operating Performance: 'aa'
Nevada's conservative management of financial operations produces budgetary balance even in times of economic weakness. The state has ample resilience to manage throughout the economic cycle and has taken steps to strengthen and stabilize its financial operations through this period of expansion.

RATING SENSITIVITIES
The rating is sensitive to changes in Nevada's fundamental credit characteristics, including conservative management of liabilities and maintenance of structural budget balance.

CREDIT PROFILE

Nevada's economy remains largely based on gaming and entertainment, although recent economic development efforts aimed at diversification have been successful. For example, the construction of the Tesla "gigawatt" factory outside of Reno is one of several positive developments in northwestern Nevada, where growth in advanced manufacturing and warehousing and distribution activities are expected to contribute to additional diversification and population growth. Gaming and entertainment related tourism (including casinos, hotels and resorts, eating and drinking establishments, and other attractions) have long been and continue to be the main economic activity in Nevada. Visitor trends have been improving with visitor volume, occupancy rates, room tax revenues, and gaming revenues all expanding since 2011.

Nevada was initially slow to emerge from the great recession but is showing continued signs of a stronger expansion. Both the labor force and employment are growing at a stronger pace than the nation. The unemployment rate, while still higher than the U.S. rate, is well off of its peak of 13.5% in 2010 and is converging on the U.S. rate. The housing market shows improvement with existing home sales and prices increasing and mortgage foreclosures declining.

Revenue Framework

Nevada's revenue system draws on its tourism based economy, relying most heavily on sales and gaming-related taxes. The state constitution prohibits a personal income tax and the state also does not levy a corporate income or franchise tax. However, in order to expand and stabilize revenues, the state has made adjustments to the modified business tax that it levies on payroll and enacted a commerce tax on businesses that have Nevada-based gross revenue of at least $4 million.

Nevada has experienced revenue growth in excess of inflation, adjusted for policy changes, even given the dramatic negative impact of the great recession in Nevada. The resumption of population growth and stronger economic expansion provides the basis for strong revenue growth prospects.

Nevada has an unlimited legal ability to raise revenues.

Expenditure Framework

Most of Nevada's general fund spending is for education (54% of general fund) and human services (31%), including Medicaid. Education spending is growing rapidly, in part due to a shift to more centralized funding of K-12 education, as well as rapid growth in the school-age population.

As with many states, Nevada's pace of spending growth is expected to remain in-line with, to marginally above projected revenue growth, requiring budget action to maintain balance.

Nevada's limited approach to state spending makes cyclical reductions somewhat more difficult than in states with a more expansive scope of spending, with lower but still solid flexibility in main expenditure items. Carrying costs for debt service and retiree benefits are low. During the great recession, the state cut spending, both across-the-board and in more targeted ways. However, to accomplish some of the required reductions, the state had to take fairly drastic action, such as furloughing employees as much as a day per month in the fiscal 2010-11 biennium.

Federal action to revise Medicaid's programmatic and financial structure remains a possibility given recent federal legislative and administrative efforts. Most proposals to date include a basic restructuring of federal Medicaid funding to a capped amount. Whether a change in federal Medicaid funding has consequences for Fitch's assessment of a state's credit quality would depend on the state's fiscal response to those changes. Responses that create long-term structural deficits or increase liability burdens could negatively affect both the expenditure framework assessment and the IDR.

Long-Term Liability Burden

Nevada's long-term liability burden, including net tax-supported debt and unfunded pension liabilities attributable to the state, as adjusted by Fitch to a 6% return assumption, is low at 4.7% of 2016 personal income. Debt issuance has been modest, with about one-fifth of state GO debt supported by program revenues and considered self-supporting. The current offering will finance statewide capital improvement projects, natural resource and environmental projects and will refund outstanding debt for debt service savings.

GO bonds are paid from a property tax pledge that is statutorily limited to $3.64 per $100 of assessed valuation for all overlapping units of government, with priority for taxes levied for debt service. There is a requirement to borrow from the general fund, to be repaid from future property tax revenues, if the annual collection is insufficient to pay GO debt service. The state's tax rate dedicated to debt service is $0.17, of which $0.02 is exempt from the statutory limit, and state law includes a permanent appropriation for such payment.

Nevada has three defined-benefit retirement systems covering state employees, the judiciary, and the legislature. The largest is the Public Employees' Retirement System (PERS), a cost-sharing, multiple-employer plan funded by member and employer contributions and investment earnings. The system-wide ratio of assets to liabilities was reported at 75% as of June 30, 2016, based on an 8% investment return assumption, well above the level assumed by most major plans. As adjusted by Fitch to a more conservative

6% investment return assumption, the ratio would fall to 59%.

Operating Performance

Nevada is expected to retain considerable financial resilience through a moderate downturn and has very strong gap-closing capacity. The results of Fitch's Analytical Sensitivity Tool (FAST) indicates a 2.6% reduction in revenues in a moderate (1% decline in GDP) recession scenario, indicative of a revenue system that is not as volatile as might be expected given the state's reliance on sales and tourism-related revenues. During the most recent recession, when Nevada experienced a dramatic reduction in revenues, the state consistently made budgetary decisions - both one-time and recurring - to produce balance. Nevada fairly quickly drew down its budget stabilization fund and then turned to budget reductions, including employee furloughs as noted above, and significant revenue enhancement measures, initially temporary, but eventually made permanent to stabilize financial operations.

Among the state's financial control tools are a constitutional requirement to balance the budget, 95% budgeting - the budget must provide for a reserve of not less than 5% of all proposed general fund operating appropriations and authorizations - and a requirement to set aside 1% of expected revenues at the start of each fiscal year in the rainy day fund. The state repeatedly delayed implementation of the rainy day funding mechanism, but incorporated it into the enacted fiscal 2018 budget, which began July 1, 2017. In a downturn scenario, Fitch expects Nevada to utilize its rainy day fund, which it is just beginning to rebuild, and take similar budget balancing actions.

The state has taken action through this period of economic recovery to stabilize financial operations in light of the significant reduction in revenues experienced during the recession. While Nevada had to take several one-time actions to balance the budget well into the economic recovery, the state also made permanent changes to its revenue system in order to reach a more structurally balanced budget.

After stronger performance initially following the recession, the state faced funding gaps during the fiscal 2014-15 biennium, even though that budget was balanced when enacted. Revenues fell short in both fiscal years of the biennium, particularly the collection of taxes related to mining operations, and expenses related to education exceeded budget due to faster than anticipated enrollment growth. Budget balancing solutions included use of fund balance, reserve sweeps, transfer of the rainy day fund to the general fund, and budget reductions including in contributions for employee health and unemployment funds.

The fiscal 2016-2017 biennial budget, which ended June 30, 2017, made permanent many of the temporary tax increases, restructured the business license fee from a flat fee to a tiered fee based on the type of the entity, changed the way in which mining companies are taxed and raised cigarette taxes. The legislature also enacted a new commerce tax on businesses whose Nevada based gross revenue exceeds $4 million. Revenue performance during the biennium exceeded forecast, which allowed for a contribution to the rainy day fund and an increase in the general fund balance.

The enacted biennial budget for fiscal 2018-2019 is structurally balanced, relies on modest revenue growth and continues to fund spending priorities including for education and workforce development. The budget provides cost-of-living increases for all employees. The budget consolidates taxes related to medical and recreational marijuana use, a portion of which will be directed automatically to the rainy day fund. The state expects the rainy day fund to total $113 million at the end of fiscal 2018.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (https://www.fitchratings.com/site/re/898466)

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