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Ratings

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Summary:
Henderson, Nevada; General Obligation

Primary Credit Analyst:
Alyssa B Farrell, Centennial (1) 303-721-4184; alyssa.farrell@spglobal.com

Secondary Contact:
Michael Parker, Centennial + 1 (303) 721 4701; michael.parker@spglobal.com

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Credit Profile		
US$114.9 mil GO (ltd tax) tax-exempt utility sys bnds ser 2020A-1 due 06/01/2040		
Long Term Rating	AA+/Stable	New
US$99.43 mil GO (ltd tax) taxable various purpose and rfdg bnds ser 2020B-2 due 06/01/2040		
Long Term Rating	AA+/Stable	New
US$50.495 mil GO (ltd tax) taxable utility sys rfdg bnds ser 2020A-2 due 06/01/2040		
Long Term Rating	AA+/Stable	New
US$28.85 mil GO (ltd tax) tax-exempt various purpose bnds ser 2020B-1 due 06/01/2040		
Long Term Rating	AA+/Stable	New
Henderson ltd tax go various purp bnds		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term to Henderson, Nev.'s:

- $114.9 million series 2020A-1 limited-tax general obligation (GO) utility system bonds,
- $50.5 million series 2020A-2 limited-tax GO utility system bonds,
- $28.9 million series 2020B-1 limited-tax GO various purpose bonds, and
- $99.4 million series 2020B-2 limited-tax GO variable purpose bonds.

At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's GO debt outstanding. The outlook is stable.

The city's full faith and credit secures the 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). Currently, the total overlapping tax rate is $2.90, but will rise to $2.93 in fiscal 2021. The 2020A utility system bonds are additionally secured by revenues from the Municipal Utility System, net of operation and maintenance expenses of the system. Proceeds from the series 2020A-1 bonds will be used to finance certain improvements to the Municipal Utility System, and proceeds from the series 2020A-2 bonds will advance refund a portion of the city's series 2012A and a portion of the series 2013A limited-tax GO sewer refunding bonds. The city estimates that utility system revenues will provide annual debt service coverage of 2.0x in fiscal 2021.

The 2020B bonds are additionally secured by 15% of all income and revenue derived by the city'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. Proceeds from the series 2020B-1 bonds will be used to finance the acquisition, construction, improvement, and equipping of various city projects. The series 2020B-2 bonds will be used to advance refund a portion of the city's series 2011C limited-tax GO refunding bonds, a portion of the series 2013B limited-tax GO various purpose bonds, and a portion of the series 2014 limited-tax GO various purpose refunding bonds. Based on fiscal 2019 actuals and the preliminary debt service schedule, the additional pledged revenue provides 1.6x MADS coverage, although the current pledged revenue estimates for fiscal 2021 reflect a decline in coverage to about 1.3x.

In our opinion, any limitation imposed on Nevada cities' 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 city. The city will have approximately $165 million in net direct debt outstanding at fiscal year-end 2020.

Credit overview

Henderson's tax and employment bases are anchored in tourism given its location near Las Vegas, which we believe may pose budgetary pressure in the near term as a result of the significant reduction in economic activity in response to the COVID-19 pandemic. However, the city has benefitted from its growing local tax base and correlated operating revenues in the last several years, allowing the city to build up its accumulated general fund and financial stabilization reserves. While the city relies heavily on C-Tax revenue for operations, which we consider relatively volatile, we believe that the city's very strong reserve and liquidity positions provide a substantial cushion to absorb the near-term projected revenue declines. The city has begun adjusting its budget to soften the blow by implementing a temporary hiring freeze and eliminating various extraneous personnel expenses in the current fiscal year and continues to identify additional adjustments for the subsequent fiscal year. Given these factors, we anticipate the city's credit profile will remain stable for the near team.

S&P Global Economics believes that the U.S. economy has fallen into a recession due to an abrupt shutdown of economic activity to contain the spread of COVID-19, which we forecast will result in a real GDP decline of 5.2% in 2020. Although we believe COVID-19's shocks are temporary, the recovery period is dependent upon the duration of social distancing requirements and consumer demand. For more information on the coronavirus' effect in U.S. Public Finance, please see our reports titled "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions" (April 2, 2020) and "An Already Historic U.S. Downturn Now Looks Even Worse" (April 16, 2020).

The rating further reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 47.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 3.3% of expenditures and net direct debt that is 48.1% 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 the lack of a plan to sufficiently address the obligation; and

- Strong institutional framework score.

Environment, social, and governance (ESG) factors

We analyzed the city's ESG risks relative to its economy, management, financial measures, and debt-and-liability profile. Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the city's ESG risk to be in line with our view of the sector standard.

Stable Outlook

Downside scenario

Should the economic recession significantly depress the city's economic activity and ongoing revenues and the city is unable to adjust its budget accordingly, causing it to materially reduce its available reserves to levels we no longer consider strong, we could lower the rating.

Upside scenario

While unlikely given the current economic environment, we could raise the rating if the city's economic indicators to improve to levels that we believe to be sustainable and in line with those of higher-rated peers, while maintaining its very strong reserve position.

Credit Opinion

Very strong economy

We consider Henderson's economy very strong. The city, with an estimated population of 317,661, is located in southeastern Clark County in the Las Vegas-Henderson-Paradise, Nev., MSA, which we consider broad and diverse. Henderson is the second-largest city in the state by population, second only to Las Vegas, and has a more significant and stable residential component, in our opinion. The city has a projected per capita effective buying income of 114% of the national level and per capita market value of $126,189. The county unemployment rate was 4.1% in 2019; however, we expect that the unemployment rate will rise in the near term based on the sharp decline in economic activity resulting from social distancing efforts, particularly given the region's large reliance on the leisure and hospitality industries.

Despite Henderson's heavy reliance on the region's leisure and hospitality industries as a result of its location just outside Las Vegas and six miles west of Lake Mead, the employment base within Clark County has gradually diversified in recent years. The city itself reports that it is also focused on diversifying its local tax base, with several significant ongoing commercial development projects within its boundaries persisting despite the economic recession. Highlighted projects include a large Google data center project (to be completed 2021), a 2.34-million-square-foot Haas Automation manufacturing facility (2022), an Amazon distribution facility (June 2020), an American Hockey League arena (2022), and a National Football League practice facility (June 2020). The city's building permit count increased by 16.1% in 2019, driven mostly by commercial growth and with the residential permit count remaining relatively steady. To date, the city has seen a 3.7% decline in building permits through March 2020 relative to the same period last year.

Overall, the city's market value and AV grew by 2.3% over the past year to $40.1 billion and $14.0 billion, respectively, in 2020. The recent growth is part of a longer-term trend, with the city experiencing 7.9% average annual growth in the last five years. The fiscal 2021 estimates reflect a 7.3% increase in AV. While we believe there is some potential for commercial properties to appeal their AV based on an income approach, the current property values are set for fiscal 2021 and any such reductions are not expected to be reflected until the fiscal 2022 tax rolls. We consider the city's tax base very diverse, with the leading 10 taxpayers accounting for 4.7% of total AV. The two largest taxpayers are hotels and casinos, representing 1.9% of total AV. Although these facilities remain temporarily closed in response to the COVID-19 pandemic, permanent closures have not been announced to date, and we do not anticipate near-term property tax revenue declines for the city.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. Highlights of key policies and practices include:

- The city's conservative revenue and expenditure assumptions based on multiple years of historical data, along with data from various external resources for revenue projections;
- Monthly review of budget-to-actual reports with the city council;
- 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 reviews of investment holdings and earnings with the council annually at audit adoption;
- The adoption of a formal debt management policy to help guide large financing decisions, which imposes additional quantitative limitations on issuances; and
- The adherence to its formalized reserve policy of maintaining a minimum reserve that is equal to roughly 16.6% of general fund budgeted revenue, including a general fund unassigned fund balance of 8.3% and a separate financial stabilization fund of 8.3%.

Adequate budgetary performance

Henderson's budgetary performance is adequate, in our opinion. The city had slight surplus operating results in the general fund of 1.3% of expenditures, and surplus results across all governmental funds of 8.7% in fiscal 2019. The city's general fund operating results have been stable over the last three years, with a result of 1.2% in 2018 and a result of 0.6% in 2017. We note that our calculations include an adjustment to increase ongoing expenditures for recurring transfers out of the general fund. The city maintains a practice of transferring a portion of its operating surplus to the capital projects fund for future needs, which it could roll back if needed, depending on performance. Exclusive of transfers, the city's general fund revenues exceeded expenditures by 8.8%.

Due to the ongoing economic recession and the expected impact on revenue, the city is currently budgeting for deficit results in fiscals 2020 and 2021. For fiscal 2020, the city anticipates a general fund deficit of approximately 3.2% of estimated expenditures, reflecting a 2% decline in operating revenues. In light of the anticipated revenue declines, the city eliminated its transfer to the capital projects fund and implemented various cost containment measures, including a hiring freeze and the elimination of training and travel expenses for the remainder of the year. The fiscal 2021 approved budget forecasts an additional deficit of approximately 7% of budgeted expenditures; however, the budget also includes a $19 million transfer into the general fund from its financial stabilization fund, nearly eliminating the deficit.

Henderson relies heavily on C-Tax revenue for operations, which we consider relatively volatile and dependent on consumer spending. In fiscal 2019, C-Tax revenue accounted for 42% of the total general fund revenue. According to the Nevada Department of Taxation, food services and drinking places accounted for the highest amount (23%) of countywide taxable sales in fiscal 2019, followed by motor vehicle and parts dealers (11%), general merchandise stores (8%), and clothing stores (7%). C-Tax revenue had been increasing by an average annual rate of 6% over the last four years, supporting the city's previously positive operating performance. However, due to the slowdown in consumer spending spurred by social distancing and the economic recession, the city is now forecasting 7.4% and 12.1% reductions in C-Tax revenues in fiscals 2020 and 2021, respectively. We understand that the city intends to continue to adjust its budget to close the gap and minimize the impact on its financial stabilization fund in fiscal 2021, although the magnitude and duration of the recession could create additional future budgetary pressure.

Very strong budgetary flexibility

Henderson's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 19% of operating expenditures, or $54.1 million. The available fund balance includes $30.7 million (11.0% of expenditures) in the general fund and $23.4 million (8.4% of expenditures) that is outside the general fund but legally available for operations in its financial stabilization reserve fund. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 20% of expenditures in 2018 and 19% in 2017.

Based on current estimates, the city anticipates the fiscal 2020 deficit to reduce its general fund reserves to $20.2 million, bringing the combined available fund balance to 15.5% of estimated expenditures, which we still consider very strong. The city's final approved budget for fiscal 2021 projects a transfer of $19 million from the financial stabilization fund into the general fund in an effort to offset the projected general fund deficit. While management indicated that the city is still working to reduce or eliminate the planned transfer, should the city utilize its reserves to the fullest extent indicated by its fiscal 2021 budget, we estimate that the city's fund balance position would deteriorate to roughly 8% of expenditures, a level we consider strong.

Excluded from our calculations are $95.7 million, or 37% of expenditures, in unrestricted cash balances held in other funds, which management indicated could be transferred to the general fund with council approval. Finally, the city's total operating tax rate remains 10 cents below the statutory maximum, providing the city with additional revenue-raising flexibility if needed.

Very strong liquidity

In our opinion, Henderson's liquidity is very strong, with total government available cash at 1.6x total governmental fund expenditures and 47.4x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

We believe the city has strong access to external liquidity, with its practice of issuing limited-tax GO bonds over the last 15 years. We do not consider the city's investments aggressive, as the majority of the city's investments are investment-grade U.S. government securities. While the financial impacts of the COVID-19 pandemic and economic recession remain to be seen for Henderson, we believe that the city could decrease its liquidity position in an effort to offset anticipated revenue declines in the near term.

Adequate debt and contingent liability profile

In our view, Henderson's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.3% of total governmental fund expenditures, and net direct debt is 48.1% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, which is in our view a positive credit factor. Immediately after the issuance of the series 2020A and 2020B bonds, the city intends to issue $20 million in medium-term GO bonds as a private placement. While secured by a limited-tax GO pledge, the city has entered into an agreement with its redevelopment agency (a component unit of the city) to finance a portion of the bonds. We note that all of the related agreements were not available for review at the time of this publication. However, we do not believe that the upcoming issuance will materially affect our view of the city's debt burden.

A portion of the proceeds from the series 2020B-1 bonds and the planned $20 million medium-term GO bonds will be used to fund the city's portion of the Henderson Event Center project, which includes the American Hockey League arena. The $80 million project includes the rebuild of the city's Pavilion as an enclosed event center to operate year-round. The city has entered into a private-public partnership with SK Arena LLC, an affiliate of the SK Team LLC (the team owner), under which each party commits to contribute 50% of the total construction costs, plus $4 million in contingencies. The project is expected to be completed in fiscal 2022, after which point the city will then lease the facility to SK Arena LLC to serve as the operator. The proposed lease agreement extends for 20 years, with the option for two consecutive five-year extensions, during which time the team commits to remain in Henderson. However, should the tenant terminate the lease prior to the expiration date, the facility operations would become the responsibility of the city, which could result in budgetary pressure for the city. Finally, under the lease agreement, a force majeure event could suspend the obligations during the continuance of the event, including public health crises. Given the current COVID-19 pandemic, we believe there is some potential for such suspension to occur if either party is unable to fulfill its commitments.

Pension and OPEB liabilities highlights:

- In our opinion, a credit weakness is Henderson's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation.
- The pension plans that the city participates in are relatively underfunded, and we believe this could lead to potentially significant cost increases in the future.
- The city funds its OPEB on a pay-as-you-go basis and the legal flexibility to alter OPEB benefits limits adverse credit impacts from its OPEB liability.

Henderson 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, 2019, the PERS plan was 76.5% funded and the city's proportionate share of the net pension liability was $214.9 million. The city made its full annual required pension contribution in 2019 totaling 17.2% of total governmental expenditures, which we consider elevated. Additionally, the city's OPEB contributions represented 0.5% of total governmental expenditures.

Strong institutional framework

The institutional framework score for Nevada municipalities is strong.

Related Research

2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 21, 2020)		
Henderson GO rfdg bnds (taxable) (ltd tax) ser 2011A dtd 12/21/2011 due 06/01/2016-2020		
Long Term Rating	AA+/Stable	Affirmed
Henderson GO rfdg bnds (tax-exempt) (ltd tax) ser 2011B dtd 12/21/2011 due 06/01/2016-2020		
Long Term Rating	AA+/Stable	Affirmed
Henderson GO swr rfdg bnds (Limited Tax) ser 2012A dtd 07/26/2012 due 06/30/2016-2027 2031-2034		
Long Term Rating	AA+/Stable	Affirmed
Henderson GO (ltd tax) medium-term var purpose bnds		
Long Term Rating	AA+/Stable	Affirmed
Henderson GO (ltd tax) swr rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed