

**WASHOE COUNTY DEBT MANAGEMENT COMMISSION
QUARTERLY MEETING**

FRIDAY

11:00 A.M.

MAY 18, 2018

PRESENT:

Naomi Duerr, Reno City Council, Chair
Bob Kirtley, At-Large Member, Vice Chair* (via telephone)
Donald Abbott, Sparks City Council, Member
Sandra Ainsworth, GID Representative, Member
Malena Raymond, Washoe County School District, Member
Nancy Parent, County Clerk
Dania Reid, Deputy District Attorney

ABSENT:

Bob Lucey, Washoe County Commissioner, Member
Michelle Salazar, At-Large Member

The Washoe County Debt Management Commission met in regular session at 11:05 a.m. in the Washoe County Caucus Room, Administration Complex, 1001 East Ninth Street, Reno, Nevada, in full conformity with the law, with Chair Duerr presiding. Following the Pledge of Allegiance to the flag of our Country, the County Clerk called the roll and the Board conducted the following business:

18-012DMC AGENDA ITEM 4 Public Comment.

There was no response to the call for public comment.

18-013DMC AGENDA ITEM 5 Approval of the Agenda for May 18, 2018.

There was no public comment on this item.

On motion by Member Abbott, seconded by Member Ainsworth, which motion duly carried with Members Kirtley, Lucey, and Salazar absent, Agenda Item 5 was approved.

18-014DMC AGENDA ITEM 6 Approval of the minutes for the DMC Organizational meeting of February 16, 2018.

Chair Duerr praised Deputy Clerk Catherine Smith for the detail of the minutes.

There was no public comment on this item.

On motion by Member Ainsworth, seconded by Member Abbott, which motion duly carried with Members Kirtley, Lucey, and Salazar absent, Agenda Item 6 was approved.

18-015DMC AGENDA ITEM 7 Appearance by City of Sparks' Finance Director Jeff Cronk and presentation of City of Sparks Debt position.

Chair Duerr recalled during the last Debt Management Commission (DMC) meeting it was decided the DMC should improve its knowledge of the various agencies that came to the Commission for approval of their bonds. She stated one or two groups would make a presentation at each meeting to inform the DMC.

City of Sparks' Financial Services Director Jeff Cronk provided a handout which was distributed to the Commission and placed on file with the Clerk. He stated Sparks was unusual in that they did not have a lot of debt and he pointed out the handout was categorized by the type of debt.

Mr. Cronk explained they had recently paid off their general obligation debt that was backed by the full faith and credit of the City for general uses. He noted the only general obligation bonds they had were backed by certain pledged revenues. He clarified tax allocation bonds were backed by a property tax component whereas revenue bonds were backed by different revenue sources. He said revenue bonds comprised the largest portion of the City's bonds. He reviewed the three revenue bond issuances by the City, starting with consolidated tax (C-tax) bonds. He indicated they were issued for four different projects, although the City Hall project was stalled due to the recession. He commented some of the C-tax bond debt was paid by the City of Sparks' Redevelopment Agency.

Mr. Cronk mentioned the largest component of the revenue bonds was the sales tax anticipation revenue (star) bonds. In 2008 they issued roughly \$83.3 million in senior star bonds for a 20-year term, which was the life of the district. He explained Nevada Revised Statute (NRS) allowed them to establish a specific boundary district; in this case it was the Outlets at Legends (Legends). He remarked the star bonds issued were used to build the infrastructure for that area and it was paid back by 75 percent of the sales taxes generated from within that area. He said if Legends underperformed, the City was not legally obligated to pay the bonds from the general fund or any other source.

Mr. Cronk stated the bonds would mature in 2028 and either they would pay for themselves or they would be an investor risk. He revealed they were performing well although they had to tap into their reserves during the recession; they had since paid that back. He mentioned they paid back the accrued interest and were planning to make a principal payment on the subordinate debt for the first time in over ten years.

Chair Duerr asked why they had not made a principal payment in ten years. Mr. Cronk replied it was due to the flow of funds. He explained any bonds in the senior position had to be paid first, followed by repayment of any funds drawn from the reserve fund. Only after the first two tiers were addressed could the subordinate bonds be paid with any leftover money. He said many years there were insufficient funds to pay the senior bond portion. He commented interest would accrue and compound if there was no money to pay the subordinate debt.

Chair Duerr remarked compounding made it difficult to dig out of any financial deficit. Mr. Cronk responded it took several years to begin paying off the accrued interest. He acknowledged the bonds were not great and as a result they were sold to large institutional investors as opposed to private citizens. He added the subordinate debt was owned by the developer. He said the City sold the bonds to highly-knowledgeable people because they were higher risk investments.

Chair Duerr asked whether the decision to change the original plan of Legends was a legislative one or whether it was within the City's scope. Mr. Cronk replied star bonds were difficult legislation and these were originally issued to bring in tourism. He indicated that was difficult to prove. He said the end result, an outlet mall, was a product of the bond issuance coinciding with the recession. While it was less than what the Sparks Council wanted and the developer intended, it was an improvement over the blight that existed before.

Chair Duerr inquired whether a business could relocate to Legends, to which Mr. Cronk answered they could. He said the laws had subsequently changed but that was the case when the bonds were issued. He added they were surprised when Lowes moved in. He said the tax allocation bonds were also related to Legends and they were limited obligation improvement bonds issued at the same time for infrastructure.

Referring to page 2 of the handout, Mr. Cronk said two of the sewer and effluent general obligation bond issuances were related to the treatment plant and the sewer infrastructure. He indicated most of the City's sewer debt was refinanced through the State Revolving Fund (SRF) loan fund managed by the State Treasurer's Office; it was refinanced to a 1.25 percent interest rate. He clarified that loan consolidated and refinanced the City's debt issued from 1999 to 2010, which saved more than \$2 million over the life of the loan. He said flood control bonds were issued to build the North Truckee drain as a means to manage flood concerns in Sparks. He added Sparks was the first agency to issue a flood fee of \$16.23 paid quarterly by users and that was the sole source of money to pay that debt service. He added these were backed by the City's full faith and credit, but the intent was to pay them with the revenues generated from sewer or flood fees. Answering Chair Duerr's question about why the rate ranged from 2.0 percent to 5.0 percent, Mr. Cronk said the range reflected different maturities.

Chair Duerr praised the City of Sparks for charging a fee to fund a portion of the project and noted she had encouraged the City of Reno to do something similar. She said Reno included stormwater management in its new master plan to set up a stormwater utility; this would make it clear to the public which fees were used for sewer and which were used for flood. She remarked over \$100 million was needed for stormwater improvements to manage water flows in the area south of Plumb Lane.

Chair Duerr expressed surprise that the plan was started in 2008 yet Sparks did not issue a bond until 2016. Mr. Cronk explained they were able to work on a cash basis but needed to issue the bonds to finish the project. He affirmed Member Ainsworth's assumption the City was able to do this because of the quarterly sewer fees it charged. Chair Duerr added that was a per-home rate and there was a different business rate. Mr. Cronk said sewer fees generated around \$3 million a year.

Mr. Cronk indicated both issuances of Redevelopment Agency No. 2 tax increment revenue bonds were used to address the infrastructure needs at Legends. They were issued at the same time as the other issuances. He mentioned the handout included non-bonded debt related to Sparks' payroll to illustrate the City's full liability.

Chair Duerr agreed those liabilities were not always transparent and mentioned it was a challenge to get employees to help pay for other post-employment benefits. Mr. Cronk remarked he included that since it was an issue in the Cities and the County.

Chair Duerr asked whether the Commission found this type of presentation helpful and most Members agreed it was. She thanked Mr. Cronk for the presentation.

There was no action taken on this item.

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Chair Duerr noted the DMC needed a two-thirds vote to act on the next two agenda items, which they could not achieve with the current Members present. County Clerk Nancy Parent said Member Kirtley was at the Department of Motor Vehicles (DMV) but he could be called to participate in the meeting. Concern was voiced about Member Kirtley's ability to hear the discussion.

Member Raymond pointed out a delay in the vote on the Washoe County School District item would cause a domino effect. She stressed the District received the Capital Funding Protection Committee's approval on the item and the timing of the DMC's vote was crucial so the District could begin building schools.

Member Ainsworth commented Member Kirtley could go to a quiet place since the DMV would text him when it was his turn.

Truckee River Flood Management Authority (TRFMA) Executive Director Jay Aldean said TRFMA's item was on the Board of County Commissioner (BCC) agenda for the May 22 meeting and they needed the DMC's approval before it could be heard by the BCC. Chair Duerr conceded they would not have time to reschedule the meeting before May 22. She asked if TRFMA needed to meet with any other entities besides the BCC and Mr. Aldean confirmed they only needed to meet with the County since it was considering the ballot question produced by the Flood Control Project Needs Committee.

After further discussion it was decided they would take a brief recess where they would call Member Kirtley so he could participate in the remainder of the meeting.

11:29 a.m. The Debt Management Commission recessed.

***11:32 a.m. The Commission reconvened with Members Lucey and Salazar absent. Member Kirtley was present on the telephone.**

18-016DMC AGENDA ITEM 8 Discussion and possible action on a Resolution concerning the submission to the Washoe County Debt Management Commission of a proposal to issue general obligations (additionally secured by pledged revenues) in the maximum principal amount of \$300,000,000; concerning action taken thereon by the commission; and approving certain details in connection therewith.

Chief Financial Officer for the Washoe County School District (WCSD) Mark Mathers indicated he was joined by Marty Johnson from JNA Consulting Group, LLC. Mr. Mathers stated the members of the Debt Management Commission (DMC) were given a copy of the Resolution, which was also posted online, and a memo from Mr. Johnson.

Mr. Mathers recalled the WCSD approached the DMC the prior year for the first series of Washoe County Question 1 (WC-1) bonds. These were general obligation bonds which carried the full faith and credit of the School District. The County pledged a 54 cent sales tax which was approved by voters in November 2016. He stated the DMC approved \$200 million in bonds which were used for the construction of two middle schools and one elementary school; those schools were expected to open in the fall in 2019.

Mr. Mathers stated the WCSD was asking for the approval of \$300 million of WC-1 general obligation bonds that would fund the construction of Arrowcreek Middle School, Wildcreek High School, and Spanish Springs Elementary School. He added they would wait to issue the debt until they procured the land and were ready to seek bids for construction on those facilities; he expected the first series of debt would be issued in October 2018. He remarked Appendix B of the packet laid out the projects which were expected to be funded by WC-1.

Mr. Johnson indicated he would review the tables in the packet that demonstrated their compliance with the criteria the DMC used to consider bonds. He said the WCSD currently had over \$700 million in debt and that would increase to over \$1 billion with the issuance of the proposed bonds. He mentioned the District's debt limit was 15 percent of its assessed value, a limit specific to the WCSD. After the issuance of the requested \$300 million in bonds, they would still have \$1.4 billion in debt limit available. He reiterated the bonds would be repaid with the revenue generated from the WC-1 sales tax.

Mr. Johnson reviewed the chart on page 7 of the packet, which showed the grand total of payments on all bonds would plateau at around \$30 million. He explained that, based on WC-1 sales tax collections taken through February of the current fiscal year, the projected revenue was \$43 million for 2018 and \$45.8 million for 2019. He noted they expected continued growth that would go toward the affordability of future bond issues, but for the sake of the presentation they assumed no future growth. With that assumption of no growth, they would still have debt service coverage of about 1.5 times. He stated the bonds would not have an effect on the tax rate and he did not anticipate issues with the general obligation pledge of the District because of the size of the coverage. He concluded by saying it should have no impact on other local governments' ability to use property taxes to fund their operations.

Prompted by a request from Chair Duerr, Mr. Mathers stated the first issuance of debt would be used for construction of Arrowcreek Middle School once they finalized the land

acquisition. He explained the school was expected to be built on Arrowcreek Parkway close to the fire station. He listed the other schools to be constructed with the second tranch of bonds.

Member Abbott asked whether the litigation regarding Wildcreek High School should affect his vote. Member Raymond said she was also involved but said she was assured the District would not proceed if the result of the litigation made them unable to complete the sale or purchase the land.

When asked by Member Abbott whether the debt was tied to the Wildcreek school specifically, Mr. Mathers replied the authorization was only to issue the debt and not to approve the projects. Mr. Mathers confirmed they would not issue any debt until the land acquisition phase was completed, which he anticipated in the first half of 2019.

Mr. Mathers confirmed Chair Duerr's assertion that any issues with the Wildcreek school could result in the project being put on hold or in the substitution of a different school. Chair Duerr said construction was so far behind there were many schools that could take its place if necessary. Mr. Mathers underscored the debt was not tied to any specific project. Chair Duerr pointed there were many other options on the list of proposed projects.

Member Ainsworth moved to approve \$300 million for the WCSD general obligation bonds.

Deputy District Attorney Dania Reid indicated the action was approval of the Resolution which would allow the issuance of the bonds.

There was no public comment on this item.

On motion by Member Ainsworth, seconded by Member Raymond, which motion duly carried with Members Lucey and Salazar absent, Agenda Item 8 was approved. The Resolution for same is attached hereto and made a part of the minutes thereof.

Chair Duerr pointed out the five aye votes met the two-thirds requirement so the motion passed.

18-017DMC AGENDA ITEM 9 Discussion and possible action on a Resolution concerning the submission to the Washoe County Debt Management Commission of a proposal to issue general obligation bonds in the amount of \$89,000,000 by the Truckee River Flood Management Authority; approving the issuance of such general obligations; and approving certain details in connection therewith.

John Sherman with Fiscal Solutions LLC, representing the Truckee River Flood Management Authority (TRFMA), stated TRFMA was created by an interlocal cooperative agreement between Washoe County and the Cities of Reno and Sparks to plan, construct, and operate a Truckee River Flood Protection Project. This was the purpose of the bonds. He mentioned Assembly Bill (AB) 375, which was approved during the 2017 legislative session, created a Flood Control Project Needs Committee. Of the five taxes the Committee had to

choose from, they chose property taxes to go on the ballot for consideration by voters in November. He noted the Committee recommended the imposition of a \$.0248 property tax.

Mr. Sherman said as part of his budget forecasting he researched several options to fund the project. The forecast model included both the bonds that would be repaid by the new tax as well as the existing 1/8th percent of sales tax the authority already received. Secondly, he said it was recommended that TRFMA impose fees on properties which directly benefitted from the project. A third component would be \$182 million in federal money that was being negotiated with the US Army Corps of Engineers (ACE), though if the authority received that money they would have to pay back about \$13.5 million.

Mr. Sherman remarked the proposed tax rate of \$.0248 would be exempted from the \$3.64 property tax rate cap by AB 375. This would not prevent affected entities from increasing their tax rates if otherwise allowed, nor would it prevent them from issuing general obligation bonds. The legal opinion was the Debt Management Committee (DMC) did not need to approve the tax rate to go on the ballot since it was exempted by the bill. He clarified the Board of County Commissioners (BCC) were still required to take action to put both the tax rate and the general obligation bonds on the ballot. He said he was before the DMC since general obligation bonds had their own rules.

Chair Duerr restated what she understood as the intent of the presentation: the ballot question did not have to come before the DMC but the issuance of bonds needed to since it was not specifically exempted by AB 375. Kendra Follett from Sherman & Howard, bond counsel to TRFMA, clarified the DMC statute said prior to placing general obligation bonds on the ballot it had to be approved by the DMC. Mr. Sherman said the ballot question was prepared by the authority of the Flood Control Needs Committee. The BCC was scheduled to entertain a Resolution that would formally put the question on the ballot; the DMC would consider whether to put the debt portion of the question on the ballot.

Member Ainsworth understood they were only voting whether to put it on the ballot but asked if the measure would increase property taxes. Mr. Sherman responded the ballot question would have two components: requesting approval to approve the tax rate of \$.0248 cents and to issue general obligation bonds. He explained general obligation bonds required both DMC and voter approval as opposed to general obligation revenue bonds, which did not usually require voter approval.

Mr. Sherman mentioned the documentation provided included a packet explaining the details he already discussed as well as the Resolution which would allow putting the approval of \$89 million in bonds on the ballot. He reviewed the authorization checklist which outlined the requirements the agency needed to fulfill and added they had all been completed. He reviewed the estimated tax rate impact chart on page 12, pointing out the estimated debt service was combined between the two debt issues illustrated on page 9. He noted the calculated debt rate never approached \$.0248 cents because the authority would use the new tax rate both to pay as they went and to pay off debt. This was due to the timing of when the revenue would be received and the timing of the various project elements of the TRFMA plan. That split would be the same with any potential sales tax revenue bonds.

Mr. Sherman commented there was discussion with the Washoe County School District (WCSD) about how their bond issuance would affect the overlapping rate since it was already at \$3.66, which included the \$3.64 tax rate cap and \$.02 from the State property tax that was exempted. He stressed no entity's ability to increase its tax rate or issue additional general obligation bonds would be affected if the voters approved the property tax rate.

Mr. Sherman stated unlike the WCSD, TRFMA did not have a maximum debt capacity. Typically that capacity was a percentage of the assessed valuations. He emphasized they would be limited by how much revenue they generated as well as by the authority of the DMC and the voters. He added they were constrained by the \$89 million in bonds the DMC was considering. Finally, provisions in the cooperative agreement, such as a debt service coverage ratio requirement, would limit TRFMA. He stressed he was not seeking authority to shape the debt structure; that would be discussed by the capital markets when the debt was issued. He concluded there were many fiscal constraints in place to ensure the financial viability of the organization.

Member Raymond inquired about the 2029 and 2038 dates set for the issuances. Mr. Sherman replied TRFMA already had the authority to issue debt that was paid for by sales tax. The plan involved a combination of debt secured by property taxes, debt secured by sales tax, and other revenue streams combined with the cash outflows of the project. This would result in fluctuations in the amount spent each year depending on the sequencing of the project. He said the project would work from east to west so any flood events would not destroy the work already completed. He stated the objective was to minimize the size of the new tax request. He indicated the sales tax debt could be issued right away and the general obligation debt could be issued when needed. That was the reason it was set out so far in the future.

Responding to Mr. Sherman's clarification that the DMC's vote would be related to both debt issues, Member Raymond expressed concern that it was so far away. Mr. Sherman said assuming the item went on the ballot and voters approved it, there would be a three-year window in which that debt could be issued. If that window were missed, TRMFA would have to get new approval from the DMC to issue the debt. He noted it would not have to go back on the ballot as long as the \$89 million amount did not change.

There were a few questions about the exact purpose of the motion and the DMC's vote. Mr. Sherman responded the DMC's vote would be to approve the question regarding the \$89 million in bonds to be placed on the ballot. TRFMA would not have to return to the DMC unless it did not issue the bonds within three years.

Chair Duerr agreed it was concerning to approve something that was ten years in the future. She provided an example about development permits approved in 2005 that surprised the Reno City Council in 2015, who had to deal with the ramifications.

Mr. Sherman reminded the Committee the three-year window was a statutory date. He said the Flood Control Project Needs Committee would examine the project to determine if they could adjust the cost based on assumptions of timing even though they had no

statutory obligation to do so. This did not bind TRFMA to the schedule, which expected the final project element to be constructed in 2046.

Chair Duerr asked whether the project was amended when TRFMA created the theoretical schedule to determine the rate. Mr. Sherman said the first thing they did that impacted cost was they reviewed the budgeted contingency costs, which were in excess of 37 percent. In talking with the preliminary designers, they determined they could reduce that to 25 percent. Second, they extended the timeframe, which lowered the annual cash outflow, although the overall cost would increase due to interest and inflationary risk. He said the Flood Authority Board performed analyses on 10-year, 15-year, and 20-year payback schedules to get the annual costs down. This would allow TRMFA the ability to build critical infrastructure east of highway 580 quickly.

Mr. Sherman stated they were considering having the Regional Transportation Commission (RTC) either share the cost of two bridges or having the RTC pay for them outright. That would save \$50 million. He mentioned the direct area benefit fees would add revenue every year. He added it was assumed TRFMA would be able to negotiate with the ACE to receive \$182 million, minus \$13.5 million for costs. Any of these components, from the approval of the rate and bonds to how revenues from the proposed property tax and sales tax flowed to the negotiation with the ACE, could change the timing of project's element construction.

Spurred by Member Abbott's query, Mr. Sherman clarified the 2028 date was for the issuance of the general obligation debt, though the sales tax debt could be issued earlier. He said the revenue generated by sales tax was a significant income stream since it only had to pay for operating costs; it generated over \$8 million a year. Chair Duerr noted it was around \$9 million in Fiscal Year 2005/06. Mr. Sherman noted Washoe County had issued debt the sales tax was pledged to repay so some of the sales tax revenue would go to pay that off. He explained one of those debts was paid off, one got refinanced, and a third had its rate reset. He summarized there would be cash from property and sales taxes and they could issue debt to even out the cash flows.

Chair Duerr asked how much of the \$9 million was being used to pay debt. Mr. Sherman answered \$1.4 million would be used for that in 2019 and it would top out at \$2.6 million starting in 2022. He confirmed sales tax was forecasted at almost \$9 million net in 2019.

Mr. Sherman reviewed Appendix A of the handout and explained the total property tax rate listed showed the overlapping rate for various geographical areas. Adding \$.0248 for this proposal would result in a total of \$3.6824. That total number included the WCSD's rate, the State's rate, and the rates for the Cities of Reno or Sparks. He mentioned the WCSD's rate was \$1.1385, of which only .3885 came from the \$3.68 total. He believed that would not change unless the WCSD paid off the debt and got rollovers authorized.

Chair Duerr summarized the overlapping rate of 3.6824 would incorporate the \$89 million issuance of bonds and the voters would vote to enact a \$.0248 rate. The resulting revenue would support the project in ten years.

There was a discussion to affirm the DMC's vote was to approve the item to go onto the ballot, not necessarily how the members would vote on the question. Member Abbott pointed out the BCC had the final say and the DMC was acting in an advisory capacity. Mr. Sherman corrected the DMC's vote was a necessary step and then the BCC was required by AB 375 to put the question on the ballot. If the question was approved, the BCC would have to levy the tax.

Ms. Follett said the role of the DMC was to determine whether the \$.0248 required for this proposal was within the 3.64 rate cap or whether it was exempted; it was exempted because of AB 375. If it were not, the DMC would have to review the 3.64 cap.

When asked by Chair Duerr what would happen if the funds were not issued within three years, Ms. Follett responded the DMC's role would be to continue to review the issue and make a determination. This would allow the people's vote on the issuance of the bonds and the vote of the tax rate to happen simultaneously, since the vote of the people would not expire. She continued that DMC statute required DMC approval before placing a general obligation bond on the ballot and prior to issuing general obligation bonds.

Ms. Follett recapped by explaining if voters approved the question, including the tax rate and the amount of the bond, TRFMA had three years to issue the \$89 million in bonds. The DMC's approval for the issuance of the bonds was good for three years. The 2029 date reflected a projection of when the cash flow would be needed.

Mr. Sherman stated there was a sunset date regarding the payment of the general obligation bonds in the ballot question. Once the last authorized general obligation bond of around \$40 million was paid off, the property tax would cease.

There was no public comment on this item.

On motion by Member Abbott, seconded by Member Ainsworth, which motion duly carried with Members Lucey and Salazar absent, Agenda Item 9 was approved. The Resolution for same is attached hereto and made a part of the minutes thereof.

Chair Duerr said the question would appear on the ballot since the BCC was required to approve the measure.

18-018DMC **AGENDA ITEM 10** Member Comments, requests for information or topics for future agendas.

Chair Duerr asked whether the Debt Management Commission (DMC) wanted a presentation from any particular entity. She suggested the Regional Transportation Commission (RTC) might be worthwhile since they spoke about issuing debt in 2018.

Member Abbott praised the format presented by the City of Sparks and recommended any other groups should have a similar presentation the DMC could make easy comparisons.

Chair Duerr requested Jeff Cronk's form be forwarded to any future agencies with the request that their presentations be made in a similar fashion.

Chair Duerr said there were 20 organizations that came before the DMC and she reiterated they wanted to hear from the biggest ones, starting with the RTC.

18-019DMC AGENDA ITEM 11 Public Comments.

There was no response to the call for public comment.

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12:30 p.m. There being no further business to discuss, on motion by Member Ainsworth, seconded by Member Abbott, which motion duly carried, the meeting was adjourned.

NAOMI DUERR, Chair
Debt Management Commission

ATTEST:

NANCY PARENT, County Clerk
and Ex Officio Secretary,
Debt Management Commission

*Minutes Prepared by:
Derek Sonderfan, Deputy County Clerk*