

WASHOE COUNTY DEBT MANAGEMENT COMMISSION
WASHOE COUNTY, NEVADA

FRIDAY

11:00 A.M.

DECEMBER 9, 2016

PRESENT:

Bob Lucey, Washoe County Commissioner, Chairman
Naomi Duerr, Reno City Council, Vice Chairperson
Veronica Frenkel, Washoe County School District Member
Donald Abbott, Sparks City Councilman
Michelle Salazar, At-Large Member
Bob Kirtley, At-Large Member

Nancy Parent, County Clerk
Dania Reid, Legal Counsel

ABSENT:

Sandra Ainsworth, GID Representative, Member

The Washoe County Debt Management Commission convened at 11:09 a.m. in the Washoe County Caucus Room, Administrative Complex, 1001 East Ninth Street, Reno, Nevada, in full conformity with the law, with Chairperson Lucey presiding. Following the Pledge of Allegiance to the flag of our Country, the Clerk called the roll and the Board conducted the following business:

16-019DMC AGENDA ITEM 4 Public Comment.

There was no response to the call for public comment.

16-020DMC AGENDA ITEM 5 Oath of Office for newly appointed member, Sparks City Councilman Donald Abbott.

The Oath of Office was administered by Nancy Parent, County Clerk.

Chairman Lucey welcomed Councilman Abbott to the Debt Management Commission and congratulated him on his election to the Sparks City Council.

There was no other action or public comment on this agenda item.

16-021DMC AGENDA ITEM 6 Approval of the minutes for the Debt Management Commission annual meeting of August 12, 2016.

On motion by Member Duerr, seconded by Member Kirtley, which motion duly carried with Member Ainsworth absent, it was ordered to approve Agenda Item 6.

16-022DMC AGENDA ITEM 7 Consideration and possible adoption/execution of a resolution concerning the submission to the Washoe County Debt Management Commission by the Washoe County School District, of a proposal to issue up to \$70,000,000 of General Obligation Bonds; concerning action taken thereon by the Commission; and approving certain details in connection therewith.

Tom Ciesynski, Chief Financial Officer for the Washoe County School District (WCSD), introduced himself; Marty Johnson, JNA Consulting Group/WCSD Financial Advisor, and WCSD's bond counsel representatives Kendra Follett and Ryan Henry from Sherman & Howard, LLC. He said these individuals were present to walk the Debt Management Commission (DMC) members through the financial information packet related to the proposed issuance of General Obligation Bonds (GOBs).

Mr. Ciesynski pointed out the first page of the packet referred to the proposed use for the GOBs and he informed the Commission this request was not related to the new sales tax funding that was approved on November 8th. He explained this item was associated with the existing property tax rollover funding.

Mr. Ciesynski noted the proceeds from the proposed bonds were expected to be used for the purposes of acquiring, constructing, equipping and improving school facilities. He pointed out Appendix B of the financial packet contained estimated costs of over a billion dollars, which included new schools, school repairs and core school investments. He explained the exact use of the \$70 million in GOB money would be determined on December 15th by the newly formed Capital Funding Protection Committee.

Member Duerr asked if Mr. Ciesynski would provide the Commission with notice of the Capital Funding Protection Committee meeting. Mr. Ciesynski replied he would do so.

Member Frenkel mentioned the WCSD Board of Trustees would have ultimate authority over of the Capital Funding Protection Committee's recommendations. Those recommendations would be considered during a special meeting scheduled for December 20th.

Member Duerr asked when the DMC last approved school bonds. Mr. Ciesynski replied the DMC approved the issuance of \$35 million in bonds the previous year and the final \$15 million of those bonds were recently issued. He said the requested \$70 million would allow the WCSD to hit the ground running because there was a great need for school repairs.

Member Duerr asked Mr. Ciesynski if he would be presenting what the school bonds would be used for. Mr. Ciesynski responded no, the DMC was tasked only with approving the debt; and the Capital Funding Protection Committee would make its recommendations to the School Board. Member Duerr stated she thought those recommendations might be part of the presentation to the Commission. Mr. Ciesynski reiterated Exhibit B of the financial information packet provided an overview of the categories the Capital Funding Protection Committee would be considering.

Mr. Johnson conducted the remainder of the presentation. He stated the financial information packet contained evidence to confirm the WCSD complied with all the required criteria. He noted a list of the District's outstanding GOB debt, listed on Page 5, indicated a debt amount of approximately \$470 million. The list also included some medium-term debt, which brought the total combined debt to approximately \$480 million. He referred to Page 6 of the packet, which indicated the WCSD was proposing to issue the \$70 million in bonds in two phases. He anticipated the first phase, involving between \$50 to \$55 million, would be issued shortly after the beginning of the new year; the remainder would be issued sometime in fiscal year 2018. He explained the DMC set the maximum amount of bonds the WCSD could issue and then it was up to the WCSD to issue whatever they could afford over the next three years. Page 7 revealed the School District's debt limit was approximately \$2.3 billion. He pointed out if one combined the outstanding debt and the proposed debt, the remaining debt limit would be \$1.8 billion, which was an important statutory reference to consider.

Mr. Johnson continued by examining the impact on the \$3.64 overlapping tax rate limit. He said it was essential to demonstrate the ability to repay the outstanding bonds, as well as the proposed bonds, from the revenues generated by the School District's \$0.3885 cent property tax rate. He remarked when he put the schedule on Page 9 of the financial information packet together, the interest rates were much more conservative than they were currently. He indicated the schedule had a weighted rate of approximately 3.9 percent; however, if the bonds were issued immediately they would be in the neighborhood of 3.5 to 3.6 percent. He felt that still left some wiggle room.

Mr. Johnson next spoke about Page 11 of the financial information packet, which depicted property tax revenues. He said the projection assumed a 2 percent growth rate for fiscal year 2018, a 1 percent growth rate for fiscal year 2019 and no growth after that. He said even though he knew the fiscal year 2017 cap was .2 percent, inflation was running well ahead of where it was the previous year, so he was hopeful the cap would be somewhere in the 2.5 to 3 percent range. He suggested with the advent of new construction, the 2 percent projection with 1 percent after that was very conservative. He stated the schedule on Page 11 included subsidies the WCSD received from issuing recovery zone bonds that were part of the Stimulus Act of 2009. He explained the federal government had agreed to pay a percentage of the interest on the bonds the School District issued during a period of time. He indicated the figures on Page 11 showed the impact on the tax rate and demonstrated the ability to repay the bonds with the revenues that would be generated by the \$0.3885 cent tax rate. In the event something drastic

happened before the issuance of the bonds, the School District would have to limit the amount that would be issued. He noted further action by the Board of Trustees would be required before the bonds could be issued.

Mr. Johnson explained the School District had to maintain its debt service fund, a reserve account, in an amount equal to either 10 percent of the total outstanding and proposed bonds or 25 percent of the debt service for the next fiscal year, whichever was less. Projections showed the WCSD would end 2017 with approximately \$29 million in the debt service fund. Since calculations indicated the required fund balance would be approximately \$13 million, the School District clearly had sufficient money in the fund to cover the reserve account requirement. He stated it was evident the School District would be able to repay the bonds and there would not be any adverse impacts to any other local governments.

Member Kirtley referenced a bubble in maturities from 2021 to 2024, which appeared to be the only time the annual cover would get thin. He inquired if this was because of the outstanding portfolio composition. Mr. Johnson answered it was due to the portfolio composition, the fact that they tried to do things with level debt, and due to the lack of growth in property tax revenues. He speculated that number would be considerably higher if the 1 percent coverage had been continued.

Member Kirtley asked if Mr. Johnson was still confident in the financial projections and the 3.9 weighted average given that debt rates had gone up 50 basis points in the last month. Mr. Johnson replied from the end of October to the beginning of the current week, interest rates on tax exempt bonds in 10 years went up 75 basis points. In response to a question from Member Kirtley, Mr. Johnson replied the lack of the issuance of municipal debt may have been due to anxiety over what would happen with tax exemptions because if tax rates went down, tax exemptions would be less valuable and people would want to sell their bonds. Member Kirtley remarked he thought it was an anomaly. Mr. Johnson agreed, stating he believed it was beginning to normalize as there had not been much change in the last few days and he did not expect rates to change much over the holidays. He pointed out there was a 25 to 50 basis point cushion in the rates and if they had to, they would adjust the amount of bonds they would issue. He stated property tax revenues were expected to come in substantially better than what was projected. Member Kirtley asked about the window for issuance of the first tranch and Mr. Johnson responded the current plan was for the end of January.

When asked by Member Duerr what the total interest payments would be on the \$70 million, Mr. Johnson referred her to Page 9 of the financial information packet, which showed the interest would amount to \$49 million.

Ms. Duerr referred to an earlier comment that was made about a .2 percent property tax increase and the expectation the rate would exceed that amount. Mr. Johnson explained the way the abatement cap worked, stating the growth for an existing property was limited to two times the Consumer Price Index (CPI) or the 10 year average rolling average of assessed value growth. The CPI for calculating the 2017 cap was .1 percent.

This year so far, inflation had been running at around 1.6 percent. He surmised if the 1.6 percent inflation rate held out, the cap would then be 3 percent for residential properties and 3.2 for all other properties. Member Duerr recalled Jeremy Aquero, Principal Analyst with Applied Analysis, appeared before the Reno City Council and stated the expected inflation rate for the next few years would continue be the same as it was in 2016.

Mark Mathers, Budget Manger, conjectured Mr. Aguero was pointing out the 10-year moving average of the assessed value change, which would be negative for a few more years. Since that value would not come into play, the two times inflation secondary measure would be in play for the next several years. Member Duerr asked about the bottom line. Mr. Mathers thought inflation would normalize at some point. He hoped inflation would be at least 1.5 percent and the cap would be at 3 percent. Member Duerr indicated the City of Reno had done similar calculations.

Robert Chisel, Director of Finance for the City of Reno, stated the Cities of Reno and Sparks worked together with Washoe County to keep an eye on the rates as they prepared their budgets. He said there was no way to know what the next year's CPI and cap would be so they had to guess.

Chairman Lucey asked when the rate would be published by the federal government. Mr. Mathers responded they would have that information in January. Mr. Johnson added the information was released monthly.

Member Duerr expressed gratitude for the clarification.

On motion by Member Duerr, seconded by Member Kirtley, which motion duly carried with Member Ainsworth absent, it was ordered to adopt and execute Agenda Item 7. The Resolution for same is attached hereto and made a part of the minutes thereof.

16-023DMC AGENDA ITEM 8 Receive report of County Entities' Debt Metrics.
Requested by Mark Mathers.

Mark Mathers, Budget Manager, explained local governments located within Washoe County were required to file statements of indebtedness and debt management policies to the Debt Management Commission (DMC). He noted the DMC asked him to compile some information and present it to the Board. The intent was to provide baseline debt information so the Board would have a sense of the entities' debt load to better evaluate requests. He noted the effective date of the information he would provide was June 30, 2016.

He noted Page 1 of the Summary of Washoe County Entities' Debt summarized debt by type. He pointed out the County and the Washoe County School District (WCSD) were the only entities with general obligation bond debt which was paid by property taxes. He explained the other type of general obligation bonds pledged the

full faith and credit of the entities, which meant they had to have another revenue source to pay the debt service. Ultimately, if their revenue sources were not sufficient, the entities would have to pay for the debt service out of their general funds or with other sources. He pointed out the summary also included non-general obligation bond debt, such as revenue bonds and special assessment district debt, which was debt that entities were not legally obligated to pay if the revenue sources were insufficient. However, he thought it was likely the entities would pay the debt to preserve their names and reputations in the capital markets.

Mr. Mathers spoke about Page 2 of the summary report which contained a chart. He said no judgements were being made about the level of debt of each entity had because it was understood each entity had different operating capital needs to balance. He noted WCSD had part of the property tax dedicated to their debt, so their debt would be manageable although the chart showed they had the largest debt.

Mr. Mathers explained the debt was tracked based on common metrics that rating agencies used. The first metric he looked at was the ratio of the general obligation debt to each entities' legal debt limit. He noted the summary report depicted what was true as of June 30, 2016 and current debt limits were actually higher. He noted Page 4 showed all the entities were well below their legal debt limit. Pages 5 and 6 depicted general obligation debt per capita, which he said was a metric that rating agencies liked to use, and was compared to the statewide average. He stated all entities seemed to be under the statewide average with the exception of the WCSD. He commented Washoe County was significantly under the statewide average although the average was slanted towards Clark County. He thought the chart on Page 6 really illustrated the comparison between Washoe County and Clark County.

Member Kirtley said he compared the remaining debt capacity for the WCSD on Page 3 of the summary report to the information provided by the WCSD during Agenda Item 7 and noticed a \$130 million difference. Mr. Mathers explained the WCSD used figures for fiscal year 2017 and his summary report was based on figures for fiscal year 2016.

Mr. Mathers stated Pages 7 and 8 depicted another comparison that was often used by rating agencies. It provided a calculation of the ratio of the general obligation bonds debt service for each agency to their total general fund budgets. He commented cross-agency comparisons could not really be made since every agency was different; however, these reports revealed how much each agency's general obligation debt would be paid out of the general fund budget if other revenue sources were not satisfactory. He said the total debt service for the Reno-Sparks Convention and Visitors Authority (RSCVA) and the Truckee Meadows Water Authority (TMWA) were compared to their total revenues since they were special purpose agencies. He concluded his report by asking Commission members to let him know if there was any other information they would like to see in the future.

In response to a question posed by Chairman Lucey, Mr. Mathers replied all the entities were under their legal capacity to issue debt. He said if a county was under the tax cap, the DMC might be entertaining proposals to submit a property tax finance general obligation ballot measure to residents; however, this was not the case.

Member Duerr commented she found the report to be very helpful.

Member Frenkel stated she also found the information helpful and expressed gratitude to the County for allowing Mr. Mathers to create the report for the Commission.

On motion by Member Frenkel, seconded by Member Duerr, which motion duly carried with Member Ainsworth absent, it was ordered to accept Agenda Item 8.

16-024DMC AGENDA ITEM 9 Member Comments.

In response to a question from Member Duerr related to when the next meeting would be, it was noted the Debt Management Commission would meet quarterly and subsequent meetings were scheduled for February 17th, May 19th and August 18th.

16-025DMC AGENDA ITEM 10 Public Comment.

There was no public comment.

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11:34 a.m. There being no further business to discuss, the meeting was adjourned without objection.

BOB LUCEY, Chairperson
Debt Management Commission

ATTEST:

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

*Minutes Prepared by:
Catherine Smith, Deputy County Clerk*