WASHOE COUNTY DEBT MANAGEMENT COMMISSION

ANNUAL MEETING

FRIDAY 11:00 A.M. AUGUST 19, 2022

PRESENT:

Naomi Duerr, Reno City Council, Chair
John Sherman, At-Large Member, Vice-Chair
Sandra Ainsworth, GID Representative, Member
Diane Nicolet, Washoe County School District, Member
Michelle Salazar, At-Large Member
Dian VanderWell, Sparks City Council, Member (via Zoom)*

Janis Galassini, County Clerk
Jennifer Gustafson, Deputy District Attorney

ABSENT:

Jeanne Herman, Washoe County Commissioner, Member

The Washoe County Debt Management Commission met in regular session at 11:00 a.m. in the Washoe County Caucus Room, Administration Complex, 1001 East Ninth Street, Reno, Nevada, and via the Zoom application in full conformity with the law, with Chair Duerr presiding. Following the County Clerk's call of the roll and the Pledge of Allegiance to the flag of our Country, the Board conducted the following business:

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Chair Duerr indicated the agenda items would be taken in the following order: Item 3, Item 10, Item 9, Item 4, Item 5, Item 6, Item 7, Item 8, Item 11, and Item 12.

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22-026D **AGENDA ITEM 3** Public Comment.

There was no response to the call for public comment.

22-027D **AGENDA ITEM 10** Washoe County Assessor's Office informational presentation and overview of the assessment process.

Washoe County Chief Property Appraiser Rigo Lopez conducted a PowerPoint presentation, and reviewed slides with the following titles: Understanding Property Valuation; What the Assessor Does; Property Tax Governed By; Tax Roll Dates; NRS 361.227; Property Valuation Formula; Property Tax Calculation Formula; Abatements (2 slides); Tax Abatement Law; Property Tax Cap Abatements; Property Tax Calculation Sample; Washoe Historical Tax Cap; Economic Development Abatements; Energy Abatements; New Values Outside the Tax Cap; Exemptions; Partial Exemptions; Full Exemptions; Questions?

Mr. Lopez spoke about the duties of the Assessor's Office, noting that contrary to popular belief it did not mail out tax bills or establish the tax dollar amount. The Assessor's Office was responsible for establishing the value for all taxable property within Washoe County, even exempt parcels. He observed Washoe County's fiscal year ran from July 1 to June 30. He shared there were currently 188,243 parcels within Washoe County, which was an increase of about 2,545 parcels from the previous year due to increased growth in the region. The Assessor's Office was required by State law to discover, list, and value all property and personal property within the County. To do that, the Assessor's Office received copies of all the building permits that were taken out in the County and staff worked those permits throughout the year. Staff valued the existing property as of July 1 of any given year.

Regarding personal property accounts, Mr. Lopez said there were a little over 29,000. Those types of accounts were mostly businesses, mobile homes that were on the unsecured roll, aircraft, and hangars. Everything the Assessor's Office did was governed by Nevada Revised Statutes (NRS) 361 and Nevada Administrative Code (NAC) 361. He informed that the Nevada Department of Taxation had a division with a group of appraisers who conducted audits on all 17 counties within the State. He believed the department was now on a three-year cycle, and Chief Deputy Assessor Cori Burke confirmed. Mr. Lopez noted Washoe County was part of the audit for 2022 and once again received a passing grade.

Mr. Lopez reiterated the fiscal year was from July 1 to June 30 and the Assessor's Office valued the existing property as of July 1. He provided an example of tract subdivisions, noting if a home was only 30 percent complete as of July 1, it would be valued as 30 percent complete and would remain that way through June 30 of the following year and would then be revisited. He indicated the Assessor's Office often received notice of the certificate of occupancy (C of O) and would ensure the property was valued at 100 percent completion by the following July 1. Secured and unsecured property shared the same lien date, but for unsecured property, the Assessor's Office stuck to a time frame from May 1 to April 30. This ensured everything was closed out and transferred to the Treasurer's Office on time. The Treasurer's Office was then responsible for mailing the tax bills and receiving payments. Member Nicolet wondered about the meaning of "secured" regarding the secured roll lien. Mr. Lopez responded the secured roll referred to real property, meaning property fixed to the ground such as houses, barns, and commercial buildings. Personal property items, he said, were on the unsecured roll and were things such as business assets or mobile homes that still had the undercarriage and the wheels and could be moved around. He reiterated that the secured roll was sent to the Treasurer's Office for the preparation and mailing of bills and the receipt of payment. Regarding the unsecured roll, the Assessor's Office sent different files over to the Treasurer's Office throughout the year and different items might be billed at different times; there were too many accounts to give the files to the Treasurer's Office all at once. Chair Duerr asked if the property on the secured roll could be thought of as secured to the ground and Chief Deputy Burke responded yes. She continued, stating if someone did not pay their taxes there would be a lien against the real property and the unsecured property would be seized; if the property could be picked up and taken it was unsecured.

Mr. Lopez spoke about the staff at the Assessor's Office, noting there were 18 appraisers in the office and 4 support specialists. He reminded that staff was responsible for

discovering, listing, and valuing all taxable property within the County. He believed the Assessor's Office was considered fully staffed at 62 employees.

Mr. Lopez shared that the valuation was made up of two components, the first of which was the land value. Under State law, the land was established at market value. The Assessor's Office used two methods to determine the land value; staff looked at land sales or applied the allocation method. Through the allocation method, the Assessor's Office looked at improved sales within homogenous tract neighborhoods, determined the median selling price, and applied a certain allocation percentage to come up with the land value for that neighborhood. He remarked that tract home neighborhoods were all built out and there were no land sales in those locations. The second component of valuation was the improvement value. He provided examples of improvements such as a house, garage, concrete, pavers, fencing, and landscaping. The Assessor's Office used a nationwide costing service, Marshall & Swift, to determine the values which were updated every year. The Assessor's Office updated its system with those replacement costs and reappraised all 188,000 parcels each year. He observed all improvements depreciated at 1.5 percent per year, up to 50 years. After the calculations were conducted, the land value was added to the improvement value to determine the total taxable value.

Member Nicolet asked if the land value included things like sewer and Chief Deputy Burke responded that it could. Mr. Lopez stated there could be a land value in rural Nevada that represented a raw piece of property, but it was considered a typical lot in that neighborhood. When the Assessor's Office went to subdivisions that had all the utilities, those were included in the base lot value. In a rural area, if a person had a well or a septic system, those were not part of the land value, they were improvements. He remarked that in the subdivisions previously referenced, the utilities were included in the Marshall & Swift cost for the house; that cost included all the amenities to the structure to make it a buildable site. Chair Duerr wondered if the age of the well or septic system was considered in the valuation and Mr. Lopez responded yes. Chief Deputy Burke commented the well or septic system depreciated at 1.5 percent per year. Mr. Lopez indicated the maximum of 50 years of depreciation at 1.5 percent per year was 75 percent.

Mr. Lopez spoke about homes in Southwest Reno being sold for millions of dollars, but their valuations were nowhere near market value. He asserted in Nevada the market value was not established as a whole for the entire property. He believed Nevada was the only state left that utilized the modified cost approach. He reiterated the two components of valuation and that these two components were added together to determine the total taxable value. He remarked the total taxable value could not exceed the market value of any property. He recalled the recession, noting obsolescence was applied to many neighborhoods as a whole because the value was greater than the sale prices. Chair Duerr asked about obsolescence and Mr. Lopez replied it was a negative adjustment. He explained if the total value was $420,000 but the sales were coming in at $320,000, $40,000 of obsolescence would be applied as a downward adjustment to ensure the value did not exceed the market value of any property. Chief Deputy Burke noted it was a type of depreciation.

Chair Duerr wondered about replacement costs and depreciation. Mr. Lopez answered that the Marshall & Swift costs were a year or two behind the current cost of building supplies, but property valuations would still increase. He said there were a lot of individuals who were owner-builders whose valuations were higher than what they paid, but for everyone to be

treated fairly and equitably, the Assessor's Office had to use Marshall & Swift; it was required by law. In response to a question from Chair Duerr, Chief Deputy Burke said Marshall & Swift was a nationwide service and there were local multipliers. Mr. Lopez reiterated Nevada was the last state using the modified cost approach valuation method. He said if a person were to buy a home in California for $1 million, that is probably the amount they would pay taxes on. Chief Deputy Burke noted a lot of insurance companies used this valuation service. Chair Duerr provided an example of a 30-year-old home that would cost twice as much to replace today because of the demand for supplies and materials. She thought 30 years of depreciation would be applied but the valuation would still go up because replacement costs had gone up. Mr. Lopez and Chief Deputy Burke confirmed that was correct. Mr. Lopez reminded the Debt Management Commission (DMC) about the cap at 50 years and 75 percent depreciation and reiterated the property valuation formula.

Chair Duerr thought land values for vacant lots were increasing and Mr. Lopez said that was correct. He stated lots had sold for $65,000 or $75,000 when the market turned down but might cost up to six times as much now. He noted the value of the land was based on what the market was doing. He referred to the property tax calculation formula on slide 7. The Assessor's calculations were sent to the Treasurer's Office where the assessed value was multiplied by the tax rate to come up with the gross ad valorem tax bill. He noted the tax rates varied by district. Vice Chair Sherman observed the DMC had dealt with overlapping tax rates and said the tax rate on slide 7 looked like it was a little more than $0.03. He stated it was actually the assessed value divided by 100 and multiplied by the tax rate, but it was easier to look at the tax rate being divided by 100 to get that number.

Mr. Lopez spoke about the tax cap abatement. He urged the members of the DMC who were homeowners to look at their property tax bills to ensure they were receiving the low cap. He explained there were two tax caps, the high cap and the low cap. The low cap applied to primary residences and rentals where the rent received was less than the Housing and Urban Development (HUD) rates. The high cap applied to vacant parcels, commercial parcels, and those parcels that did not meet the low cap requirements. For the most part, he said, the high cap was capped at around 8 percent, and the low cap at around 3 percent. He informed that there were a couple of years where both the low and high caps fell below 3 percent. The caps had been passed by the Legislature in 2005. He observed when he had phone conversations with property owners, he tried to make sure they had filled out the form to designate their property as their primary residence or a qualifying residence. If they did not, the tax cap would be switched to the high cap. In response to a question from Chair Duerr, Mr. Lopez said a form did not need to be filled out every year, it just needed to be done if the information changed.

Mr. Lopez asserted economic development and energy abatements were through the State. Once the Assessor's Office received that information, staff entered it into the system. He reminded that the Tax Abatement Law went into effect on July 1, 2005. Every year the Assessor's Office valued property and land by looking at market value. He indicated a person's taxable value may increase 50 percent from one year to the next, but if it was a primary residence the taxes would be capped at 3 percent excluding any new construction. He provided an example of an individual taking out a building permit to build a new shop. He informed that the shop would be valued at 100 percent the first year, but the cap would reset the following year and would be capped at 3

percent going forward. In response to a question from Chair Duerr, Mr. Lopez responded it was just for new construction. Chair Duerr inquired if there would be two bills for the secured property, one for the house and one for the shop. Mr. Lopez replied that for the most part, it would just be one bill because the Assessor's Office did everything it could to get all the new construction on the roll within a timely manner for the Treasurer's Office. However, he said, all the information needed to be provided to the Treasurer's Office by a certain date and it was not possible for the Assessor's Office to work all the permits. The Assessor's Office would send an extended file to the Treasurer's Office, and the homeowner would then receive an amendment to their bill. It was still one bill, but it would note the amount that was attributed to the new construction. Chair Duerr provided an example of an individual building a shop one year, a new bathroom two years later, and renovating the kitchen another two years later, and wondered if there would still be one bill noting the amount attributed to new construction. Mr. Lopez answered yes, noting there could be new construction in each of those years and the assessment notice mailed to the individual would state the value of the home, if there was any new construction, and whether they were receiving the high cap or the low cap.

In response to a question from Chair Duerr, Chief Deputy Burke stated solar was exempt from tax in Nevada. Chair Duerr asserted solar might increase the value of the home to a buyer but did not increase the value of the home for tax purposes. Chief Deputy Burke responded that was correct, noting the Assessor's Office only added the solar panels to the valuation for informational purposes, but zero value was applied.

Mr. Lopez showed the members of the Board an assessment notice and pointed out a few of the items listed. The notice displayed the values of the property from 2021 to 2022 and 2022 to 2023, whether there was any new construction, and whether the property was receiving the high cap or the low cap. He stated the assessments were sent out in November or the first part of December each year. Chair Duerr referred to her previous example and wondered if the house and the shop were on two different depreciation schedules if the house was 30 years old and the shop was considered new construction and valued at 100 percent the first year. Mr. Lopez confirmed that was correct. Chair Duerr asked if it mattered whether the shop was a standalone building or was attached to the house. Mr. Lopez replied yes, noting the Assessor's Office would inspect the property to determine if it was attached or a separate building. He informed that the Assessor's website listed items that were attached to the house as well as items that were detached, such as garages and shops. Detached items, he said, were considered extra feature items and depreciated by the age of construction; the house items depreciated according to the age of the house. He provided an example of a house that was built in 2000 but had a new addition of 2,000 square feet, noting even though 2000 was the age of the house, the weighted average year of that house might be 2010. It lost some of its depreciation.

Chair Duerr wondered if a 2,000-square-foot house with a 2,000-square-foot addition would be re-valued and the average would be taken to reset the home to a 2010 value. Mr. Lopez replied that was possible because it was not the original house, noting the Assessor's Office was just accounting for the addition. Chief Deputy Burke said depreciation was also changed if there was a major remodel where the house was taken down to the studs and there was new plumbing and new electrical. She indicated it was in statute to change the depreciation if a house was improved by more than 10 percent and the improvements were not just general

maintenance such as updating the floor covering or painting. Chair Duerr provided an example of a 3,000-square-foot house built in 1970 with an addition of 300 square feet, which would be a 10 percent increase, and wondered if the whole house would reset to a 2022 value. Chief Deputy Burke responded that the Assessor's Office would calculate the value with 10 percent at 2022 and 90 percent at 1970 and blend it to determine the weighted average, which might be 1972. Mr. Lopez observed there were a lot of components involved.

Mr. Lopez reviewed slide 12, Property Tax Calculation Sample. He spoke about the year one and year two columns, noting year one represented a brand-new home and year two showed the recalculated value after improvements, depreciation, and taxes. He stated the improvement values changed because every year the Assessor's Office received updated costs from Marshall & Swift. He shared that the new assessed value would be sent to the Treasurer's Office where it would be multiplied by the tax rate to determine the gross ad valorem tax bill. He asserted if the property in the example on the slide was a primary residence the taxes would be capped at 3 percent. The tax bill would show an abatement of about $300, which was the difference between the taxes as assessed and the capped taxes. He also provided an example of a high cap at 7.7 percent, where the taxes would increase a little over $100 more than if the property were a primary residence or a rental that met the HUD guidelines. Chair Duerr opined it was a good incentive to have very low rental rates and Mr. Lopez agreed.

Chair Duerr wondered about the different tax rates for different areas. Chief Deputy Burke indicated the Cities of Reno and Sparks were both at the maximum allowed by law in all their areas. She continued, stating Incline Village and unincorporated Washoe County were lower at approximately 3.4 percent.

Mr. Lopez spoke about the historical cap, noting the Assessor's Office received the cap rates from the State around May or June. The 2023 caps had been received and he shared that the high cap would be 8 percent. He spoke about the graph on slide 13, which showed the historical tax cap rates through 2022. He pointed out fiscal years (FY) 2016 and 2017, stating in FY 2017 both the low and high caps were 0.2 percent. According to statute, the high cap could not be lower than the low cap; if the high cap was lower, then everyone would get that cap for that year. He opined that was fair and equitable, noting primary residences should not be capped at 3 percent while all other properties were capped at 0.2 percent. Chair Duerr said she understood there were high and low caps, but she thought there was an equation that drove things down below 8 percent. Chief Deputy Burke responded there was the ten-year rolling average change in assessed value or two times the consumer price index (CPI). Chair Duerr thought these equations were basically regulators to try to get things to reflect what was going on in the economy and there was about a one-year lag. She observed the recession that began in 2009 drove down the tax cap starting in 2010. Chief Deputy Burke and Mr. Lopez responded yes and said it was because the ten-year rolling average was used. Vice Chair Sherman commented the rate of inflation also went way down.

Chair Duerr believed rates could only climb back up a certain percentage per year. Vice Chair Sherman answered it was the tax bill that could only go up by 3 or 8 percent after it had gone down, and Chief Deputy Burke agreed. Mr. Lopez stated one of the challenges for the Assessor's Office was explaining to homeowners that when property valuations went down and

there was a huge abatement amount, the taxes would still go up 3 percent. He stressed the importance of looking at the abatement. Chief Deputy Burke explained the bottom of the market was 2012, so any improvements that were in existence on the rolls in 2012 probably hit bottom in 2013 because the Assessor's Office was about a year behind. Then the abatements started getting applied where the taxes could only increase 3 or 8 percent going forward. As of 2022, she said, the Treasurer's Office was writing off $100 million per year in abatements just in Washoe County because it could not be billed.

Chair Duerr understood rates could fall in one year and take ten years to recover because of the ten-year rolling average. She thought it was a problem, noting she had been advocating to get rid of the equation. Chief Deputy Burke opined the equation would probably never be eliminated. She said one of the unintended consequences was, because of the way the statute was written, it applied to the property and not the owner; it was supposed to be a hardship for the owner. She thought if the owner sold the property for three times more than what they were paying taxes on, the abatement should be reset for that year. Vice Chair Sherman remarked it was the same with depreciation; depreciation was attached to the house, not the owner. Chief Deputy Burke commented the depreciation would be reflected in the market value, so if the depreciation was wiped out completely the taxable value would probably exceed the market value. She asserted the depreciation could not just be eliminated, noting if a house was 50 years old and the owner had not done any renovations then there would be depreciation. Vice Chair Sherman thought that should be reflected in the market value. Chief Deputy Burke agreed but said in the system the Assessor's Office used there were replacement costs, and if full replacement costs were applied and it was treated as a brand-new house, obsolescence would have to be applied. Vice Chair Sherman opined the nature of having a two-factor system with replacement costs and market value for land was convoluted.

Mr. Lopez and Chief Deputy Burke indicated there was a lot on the table for the 2023 legislative session. Mr. Lopez stated that a couple of years ago the Legislature had talked about getting rid of the depreciation so it would reset when the property was sold and noted that might be on the table again. Chair Duerr opined it would be on the table every legislative session for a while. She wondered if the market rate aspect would also have to be addressed. Chief Deputy Burke responded she did not believe it would be on the table in 2023. She shared the Assessor's Office had given a presentation to the Legislature a couple of months ago and she thought the legislators finally understood that even if depreciation was removed, if the cap was still there, the taxes were still only going up 3 percent. She asserted removing depreciation would not fix the problem, the abatement was the issue that needed to be fixed. She said the only way to get more money was to reset upon sale. Chair Duerr thought the Legislature had to refocus on the 2005 cap issue. Chief Deputy Burke agreed and said it was either that or focus on market value. She opined due to the way the market had increased the Legislature would have a hard time getting voters to agree to go into a market value system. Vice Chair Sherman noted that was essentially what had happened in 2005. The land values were going through the roof and the method the Legislature chose to resolve the issue was to cap the tax bill.

Chair Duerr inquired how the Assessor's Office would propose to resolve this problem. Chief Deputy Burke replied they had been telling the Legislature for three sessions to reset the cap on sale so the new homeowner would be able to avoid the hardship. Member Nicolet

wondered why the Legislature had not budged on this issue, and Chief Deputy Burke said Nevada State Senator Julia Ratti had been very focused on depreciation. Chair Duerr stated the tax cap had been established through legislation and that the Nevada Constitution did not have to be amended. Chief Deputy Burke agreed and said the language in the Constitution indicated it was a hardship for the owner so it would not have to be amended, the statute would just need to be changed. She remarked it would not have to go to a vote of the people and could take effect July 1, 2023. In response to a question from Chair Duerr, Chief Deputy Burke commented she did not think depreciation would be the route the Legislature would take during the upcoming legislative session.

***11:45 a.m. Member Dian VanderWell joined the meeting by Zoom.**

Vice Chair Sherman spoke about the bifurcated valuation system. He thought it had been a response to Proposition 13 in California which capped value until resale because property taxes were going crazy. In response to that, he said, Nevada developed the two valuation methods. Mr. Lopez believed that occurred in 1982 or 1983, and Chief Deputy Burke commented Nevada was a market value system prior to that. Vice Chair Sherman thought developments in Nevada's tax system had occurred due to incessant tinkering, with big changes taking place every once in a while, such as the property tax bill caps or the bifurcated valuation system. Mr. Lopez stated that was the challenge for the Assessor's Office; it was tough enough for staff to understand the changes, and then they had to explain the new changes to taxpayers each time they transpired.

Vice Chair Sherman wondered if the Treasurer's Office could be invited to give a presentation to the DMC and Chair Duerr responded yes. Vice Chair Sherman said the presentation from the Assessor's Office was illuminating but the other side of the equation was what the county treasurers around the State had to do to generate live tax bills. He noted treasurers also had statutes and administrative codes to follow. Mr. Lopez commented that staff at the Washoe County Treasurer's Office had their hands full, especially with the refunds from an Incline Village case they had been working on for over 20 years. Vice Chair Sherman asked if any regulations had ever come up regarding how to value views as a result of that case and Chief Deputy Burke responded yes. She said that shortly after, it was determined the view did count towards the valuation, and this was now in law. Vice Chair Sherman commented it had been a technicality, and the Supreme Court determined that the valuation method including the view had to be applied across the entire State, not just to Incline Village or Lake Tahoe. In response to a question from Chair Duerr, Chief Deputy Burke replied it had been called a view classification system because it had numbers. She said the numbers basically represented fair, average, good, great, and excellent, but because this was done by number, it was considered a classification system. She continued, stating it was not applied throughout the State because there were no other places where view drove value like it did in Lake Tahoe. Chair Duerr asked if it had just been adopted for the Lake Tahoe area basin and Chief Deputy Burke responded yes. Vice Chair Sherman believed the view component was a factor in the value of developing the land and it got the value closer to market value. Chief Deputy Burke confirmed that was correct. Mr. Lopez remarked that he and Chief Deputy Burke had been two of the Incline Village appraisers. He stated they had gotten the view adjustments for appraisers who worked the Tahoe area because they worked in that area every day. Vice Chair Sherman noted that was how the prices were set.

22-028D **AGENDA ITEM 9** Discussion and possible action on a resolution concerning the submission to the Washoe County Debt Management Commission of a proposal by the City of Reno, Nevada to issue City of Reno, Nevada, general obligation (limited tax) sewer bonds (additionally secured by pledged revenues) in the maximum principal amount of $45,000,000; and approving certain details in connection therewith.

Zions Public Finance Managing Director Andrew Artusa stated he would present the financial information related to the City of Reno's proposal to issue $45 million of general obligation (GO) bonds that would be additionally backed by the Sanitary Sewer Fund. He noted he was joined by City of Reno Finance Director Vicki Van Buren and Kendra Follett of Sherman & Howard LLC, bond counsel for the City of Reno.

Mr. Artusa informed the proceeds from the proposal would be used to fund a portion of the Advanced Purified Project, which was a joint venture with the Truckee Meadows Water Authority (TMWA). The project would provide an additional water resource to the community. He referred to page 1 of the financial packet, which laid out the items that needed to be satisfied for the Debt Management Commission (DMC) to approve a proposal. The first item, he said, was that the project needed to be included in the City's Capital Improvement Plan, and the contemplated bonds had to be included in the City's Debt Management Policy. He noted there was an item on the agenda that day to review and approve those policies and plans and the City had included the project and the bonds in its most recent plans which were filed with the Clerk. The second item, he stated, was that the City could not exceed its statutory debt limitation which was based on a percentage of assessed valuation; the City's debt limitation was 15 percent of assessed value and its debt limit was approximately $1.6 billion. He indicated the City had outstanding debt of about $156 million, and when added to the proposed $45 million, the City would have additional capacity of approximately $1.4 billion but did not plan to issue that. The next item was in regard to the affordability of the debt. The City was required to prove it would not utilize any property tax to repay the obligation; the project would be paid through the City's Sanitary Sewer Fund. He noted the bonds would not be paid by the City's property tax or GO revenues, but the City added the GO pledge to the bond issue to give it better credit worthiness.

On page 8 of the financial packet, Mr. Artusa pointed out the proposed $45 million in bonds which would be issued through the State Revolving Fund (SRF) for water projects. He shared that the SRF provided low-cost financing to local governments for qualifying projects. For example, in the financial packet, the debt service was estimated conservatively at 5 percent to make sure there would be affordability and to allow for fluctuation in interest rates during the approval process. He observed the City was in the first step of the bonds approval process and it would take three or four months to be approved through the different processes. Since it was unclear where the capital markets would be in terms of interest rates, the 5 percent estimate was chosen as a conservative rate assumption. He stated the City would issue 20-year bonds with level debt service. He spoke about current interest rates, noting if the City were to issue the bonds that day the interest rate would be 2.15 percent which would reduce the debt service by approximately $780,000 from the estimate provided in the financial packet. Chair Duerr commented the City of Reno had recently sold bonds for the Moana pool, the police department, and the fire station design, and she wondered about the difference in the interest rate for those bonds compared to the

interest rate for the proposed bonds. Mr. Artusa responded the City had issued the $60 million in bonds for the pool, the police department, and the design of the fire station at 4 percent interest because the bonds were publicly offered which was different from the method of sale for the proposed bond issue. The proposed bonds would be privately placed with the SRF. The SRF's rate was based on 62.5 percent of the bond-buyer index, which would be 2.15 percent if issued that day. He reminded that the actual rate would be unknown until the bonds were priced which would not happen until early 2023. In response to a question from Chair Duerr, Mr. Artusa replied that as of that day the City would probably borrow 20-year money at about 3.5 percent or a little more, but the rate on the proposed SRF bonds was 2.15 percent. He noted the City had two outstanding bond issues for water projects that were also purchased by the SRF, the interest rates of which were 1.61 percent and 1.42 percent. In response to a question from Chair Duerr, Ms. Van Buren indicated the low interest rate would apply to the projects that would be financed by the proposed bonds because they were SRF-qualified water projects.

Mr. Artusa directed the members of the Commission to page 9 of the proposal and spoke about the historical net pledged revenues that had been generated by the Sanitary Sewer Fund. Based on the 2023 budgeted number, the revenues were about $37 million. There was outstanding debt service that would begin to pay off rapidly. On page 10, he observed the City had made a conservative assumption and not assumed any growth in net pledged revenues to afford the debt. The City's outstanding debt service would drop off from a little over $9 million in 2023 to $3.5 million in 2027 and going forward. Assuming the 5 percent estimate, the proposed bond issuance would add approximately $3.8 million in debt service. He stated the coverage was very high and exceeded by three times. Based on the conservative assumptions, he asserted the City had significant coverage and would not rely on any property taxes to pay the obligations back.

Vice Chair Sherman asked if the State and the SRF required any kind of credit enhancement in terms of debt service reserve or coverage requirements and Mr. Artusa responded no. Ms. Follett stated that for GO revenue-backed bonds the SRF did not require coverage or reserve funds; if the SRF were to issue revenue-only bonds, coverage and a reserve would be required by policy. Vice Chair Sherman wondered if the proposed bonds would be backed by property tax revenues received by the City if the revenue stream to pay off the bonds was insufficient, and Mr. Artusa said that was correct. In response to a comment from Member Nicolet, Vice Chair Sherman explained the proposed bonds were GO bonds additionally secured by pledged revenues from the Sanitary Sewer Fund. If there was not enough revenue to pay the debt, he continued, then the City would have to dip into its general fund, where property taxes were located, to make up the difference. Ms. Follett asserted that scenario was unlikely because the bond ordinance contained a covenant for bonds backed by rates; the City would charge whatever rates were necessary to pay the bonds. She said the scenario would be possible if the bonds were backed by consolidated tax (CTAX) where the City or another local government had no control over the rate of CTAX and could not raise it. When backed by certain user fees, such as the sewer rates, the City had the ability to raise the sewer rates to pay the debt. Vice Chair Sherman wondered if there was a covenant that would be with the bonds stating the City had to maintain its sewer rates to keep up with the debt payments and Ms. Follett replied yes.

Chair Duerr thought the City had flat sewer rates that had not increased in several years. Ms. Van Buren responded per municipal code, the City's sewer rates went up by consumer

price index (CPI) every year; this year the sewer rates would go up by 7.1 percent. She stated the City had not raised its connection fees and would look into that in January. She said that had not been factored into the calculations for the proposed bond issue and the City still had excellent coverage. Chair Duerr inquired if both the rates and the connection fees would be used to pay. Ms. Van Buren answered both the rates and the connection fees were included in the sewer fund information in the financial packet because that was how the City reported to the State, but the City was anticipating only using connection fees to pay its portion. Vice Chair Sherman observed according to State law, the GO bonds would have to be placed on a ballot to be voted on if there was a valid petition to do so. He asked if anyone had ever had to face this scenario and Ms. Follett responded the City of Reno had not. Chair Duerr and Vice Chair Sherman wondered if it had happened anywhere in Nevada. Ms. Follett replied yes, noting it had happened maybe twice in the 30 years she had been working on bond issues in Nevada. Vice Chair Sherman thought it could happen in a smaller county and Ms. Follett said yes. She explained it required 5 percent of all registered voters to sign the petition, which would be a high number in the City of Reno.

In response to a question from Chair Duerr, Ms. Follett clarified that Vice Chair Sherman was speaking about the process to authorize a GO revenue-backed bond. She noted the revenue source was irrelevant to the process. Coming to the DMC was one of the legal proceedings required to authorize a GO revenue-backed bond. Chair Duerr wondered about the previous bond proposal from the City of Reno for $60 million in GO-backed bonds. Mr. Artusa replied that bond issue had a 90-day petition period as well. That meant 5 percent of registered voters could protest and it would have to be placed on a ballot, but that did not happen. The public was notified, which was part of the authorization process, and it would be the same process moving forward with this bond issue. He said the 90-day petition period was the first step in the process and it applied to any GO bond backed by revenues. He clarified the backing for the bond was the revenue stream, the GO was just an additional security for the bond issue.

Member Nicolet requested more information about the SRF. Mr. Artusa replied the SRF was a program that started at the State level, noting it received money from the federal government to help finance certain projects, typically related to drinking water or clean water. He explained clean water projects were sewer projects. He shared that qualifications for the SRF were set by the program and federal law and were pretty complicated, but the proposed project did qualify. Local governments in Nevada were able to take advantage of the program as long as they qualified. Once a project qualified and the State was willing to provide the loan, the State would purchase the bond directly and become the bondholder. Typical bond issues, he said, were sold to the public, whereas the proposed bond was privately placed with the State and the State would provide a very low interest rate to entice and help with the affordability of these types of projects. Ms. Van Buren shared that the City would only draw down when it needed the funding and would not pay the principal amounts until the whole loan was taken. She said this was similar to the $55 million sewer project the City had brought to the DMC a couple of years ago, which had one draw left before the City would begin making payments. With the $60 million bond issue, all the bonds came at once and the payments began as soon as the funds were received. Chair Duerr provided an example, asking if the City drew down $10 million in the first year would it only make payments once the full $45 million had been drawn down. Ms. Van Buren replied the City would pay interest on what it had drawn that year.

Chair Duerr reminded the bond proposal was a joint project between the City of Reno and TMWA and asked if the $45 million was the total cost of the project or just the City of Reno's portion. Ms. Van Buren responded the total project cost was almost $118 million; the City of Reno's capital portion was 70 percent and TMWA's was 30 percent. She remarked the City of Reno's portion was around $83 million and it was proposing to use its sewer fund cash balance for about half, and bond finance the other half. Once the project was up and running, she commented, the operating cost would be evenly split between the two entities. In response to a question from Chair Duerr, Ms. Van Buren said TMWA would pay its portion in cash and Ms. Follett stated TMWA would not come to the DMC as its authority was to issue revenue bonds only.

Vice Chair Sherman understood the DMC could not evaluate the merits of a project unless certain conditions applied, but he wondered if the project would increase the capacity of the Stead wastewater treatment facility. Ms. Van Buren informed the project was more about water storage, the use of the water, and bringing that facility up to the capacity goal of four million gallons per day (MGD). It would decrease the need for Swan Lake for effluent disposal and pipelines would run it up to the American Flat facility. The goal of the project was to meet the State's requirements for A plus advanced purified water. She explained it would allow the American Flat facility to have aquifers, inject the water into the ground, and water the fields. She opined in the future there would be the potential to create a renewable water resource there.

Vice Chair Sherman pointed out that TMWA's annual report contained a graph and narrative describing the project. He asked who would pump the water once it was injected and Chair Duerr responded it would be TMWA. She observed there had been a separate bond issuance to expand the capacity from two MGD to four MGD. This issuance, she said, would change how high the water was treated. She informed crops were being irrigated at American Flat but water from Swan Lake was being used, noting this also helped bring down the level of the lake. Through this project, rather than sprinkling crops, water would be injected. She said water was injected to store it under the aquifer storage and recovery (ASR) projects. When there was a lot of Truckee River water it was cleaned and injected and pulled out during dry times. She indicated the proposed project would operate similarly, noting it was another place to inject water and store it rather than in big reservoirs with a huge evaporation component. She shared she had worked at another place in a different state where there was a proposal to take pond water, lake water, or stormwater and inject it, without treating it to A plus before doing so. However, because of the quality of the water and anaerobic conditions, there were some issues. She opined the City of Reno and TMWA had taken things to another level by treating the water before it was injected. She thought Mr. Artusa and Ms. Van Buren had done a good job explaining how the capital and operating costs were being split between the entities. She noted Washoe County and the City of Sparks were not participating financially but did have representatives that served on the TMWA board. She observed TMWA serviced most areas and she thought there was a kind of regional buy-in to the whole project.

Member Nicolet asked if the water was injected into holding tanks. Chair Duerr replied no, it was injected into sand. She pointed out that sand further purified water, but the water being injected would be purified already. She stated the Western Regional Water Commission had just received a presentation about the project on Wednesday. She said there had been discussions about drinking the water straight from the tap, and other states that already had these types of projects were highlighted. She thought the City of Reno's project was one of the first inland

projects. Member Nicolet inquired how the water would be used or extracted once it was injected. Chair Duerr stated it was pumped back out with wells. She said that was what ASR was; water was stored in the aquifer and then was recovered later for use. She asserted ASR was used all over the Country to safeguard and protect a water resource. She observed there was a high evaporation rate in Nevada. The evaporation rate was about four acre-feet per year in the region, eight acre-feet in Southern Nevada, and three acre-feet in Tahoe.

There was no response to the call for public comment.

On motion by Vice Chair Sherman, seconded by Member Nicolet, which motion duly carried on a 6-0 vote with Member Herman absent, it was ordered that Agenda Item 9 be approved. The Resolution for same is attached hereto and made a part of the minutes thereof.

22-029D **AGENDA ITEM 4** Discussion and action to establish priorities among essential and nonessential facilities and services pursuant to NRS 350.0155(2) that shall be considered by the Debt Management Commission if the statutory ceiling established by the Debt Management Commission for the combined tax rate in any of the overlapping entities within the county is exceeded by a proposed debt or a special elective tax, and compare that public need to other public needs that appear on certain filed statements of current and contemplated debt.

Deputy District Attorney Jennifer Gustafson informed the purpose of Agenda Item 4 was for the Debt Management Commission (DMC) to establish priorities in accordance with Nevada Revised Statutes (NRS) 350.0155. She stated an entity would submit a proposal to the DMC to do one of three things: incur debt, enter into an installment agreement with a term of more than ten years, or levy a special elective tax. In those cases, the DMC considered the proposal but did not determine whether the proposal was sought to accomplish a public purpose or satisfy a public need. However, she continued, if the proposal would result in a combined property tax rate in any of the overlapping entities within Washoe County exceeding the percentage set by the DMC, the Commission could consider the public need which would be served by the proposal. The priorities set here would then be taken into account.

Last August, Attorney Gustafson observed, the DMC set the threshold at 90 percent of the $3.64 per $100 of assessed valuation limit on the total ad valorem tax levy, which was provided in NRS 361.453. She noted 90 percent of $3.64 was $3.276. If a proposal were to push the combined property tax rate above $3.276, then the DMC could compare the competing public needs in accordance with the priorities that would be established in this item. She said NRS 350.0155 indicated facilities and services related to public safety, education, and health were essential; everything else was considered nonessential. In previous years, the DMC moved to establish those as essential priorities with each receiving equal weight, and all other facilities and services were deemed nonessential.

Chair Duerr asked if the three essential priorities had to be given equal weight or if they could be ranked. Attorney Gustafson believed they could be ranked. She read NRS 350.0155 and noted it did not state what the DMC could prioritize amongst the essential categories. Chair Duerr referenced the language in NRS 350.0155 that said, “establish priorities within” and

wondered if the DMC was still in compliance by setting equal priority to each of the three essential categories. Attorney Gustafson believed the essential categories could be ranked but did not think it was necessary to do so for the Commission to be in compliance with the statute. Vice Chair Sherman did not think there had ever been hearings at the Legislature regarding the exact intent of the statute. He said the DMC had always been conservative and replicated State law by stating public safety, education, and health were all equally essential, and everything else was nonessential.

There was no response to the call for public comment.

On motion by Member Salazar, seconded by Member Ainsworth, which motion duly carried on a 6-0 vote with Member Herman absent, it was ordered that the Debt Management Commission establish public safety, education, and health facilities and services as essential and all having priority, and all other facilities and services be established as nonessential.

22-030D **AGENDA ITEM 5** Discussion and action to specify a threshold percentage of the statutory ceiling for the combined tax rate in any of the overlapping entities within the county, which if exceeded permits the Debt Management Commission to inquire into the public need to be served by proposed debt or a special elective tax based on established priorities among essential and non-essential facilities and services, and compare that public need to other public needs that appear on certain filed statements of current and contemplated debt.

Deputy District Attorney Jennifer Gustafson stated pursuant to Nevada Revised Statutes (NRS) 350.0155(1), the Debt Management Commission (DMC) needed to specify the percentage of the combined property tax rate somewhere between 75 and 100 percent. If the selected percentage were to be exceeded, it would trigger the DMC's duty to weigh the public need to be served by the proposals based on the priorities set in Agenda Item 4. She noted the DMC had set the percentage at 90 percent since 2001.

Chair Duerr asked Vice Chair Sherman to explain what would happen if the threshold was exceeded. Vice Chair Sherman reminded that the existing statutory overlapping rate cap was $3.64, and 90 percent of that cap would be $3.276. He commented a couple of things could happen if a proposal were to come to the DMC that would exceed the 90 percent threshold. First, he said, this would be one of the rare circumstances in which the Commission could take public need into account when considering the proposal. The DMC could choose not to hear the proposal if it did not think the project was necessary. If the project was related to public safety, the Commission would have to hold public hearings and the overlapping jurisdictions could attend and object because it would affect their property tax rates. He stated that was why setting the priorities and the rate was important. He stated Washoe County, the Washoe County School District, and the Cities of Reno and Sparks were the big overlapping entities in the community, and when combined, they were already at the $3.64 tax cap. He opined that a proposal exceeding the threshold would likely only come from a smaller jurisdiction. He provided an example of the Incline Village General Improvement District wanting to raise its property tax rate and noted it would have to come before the DMC and then be placed on a ballot if approved by the Commission. Under these circumstances, the DMC could take the public need into consideration.

Chair Duerr shared an example of Incline Village wanting to build a library. Since it did not fall under the essential categories of public safety, health, and education, she wondered if the Commission would have to debate if there should be a ballot initiative. Vice Chair Sherman explained any time there was a proposal to raise property taxes to pay for something, the proposal would have to be heard by the DMC. He noted this was because of the complications of other entities levying property taxes, primarily to pay off debt, although they were sometimes used for operating purposes. Member Nicolet wondered if the DMC approved the proposal, would it then go on a ballot and only Incline Village would be impacted by a tax increase. Vice Chair Sherman replied only Incline Village would be eligible to vote on the ballot initiative. He said if the ballot initiative would increase the property tax rate and cause the other entities to lower their tax rates, then the DMC would have to hear the proposal and decide if it would allow that to happen. Chair Duerr said that would be the process because of the tax cap and because the overlapping entities were already at that cap. She noted this had happened before. Vice Chair Sherman opined the members of the Commission did not want to go through that, noting in the past there had been weeks of hearings and a full audience. Chair Duerr inquired about the incident that had initiated this process in the past. Vice Chair Sherman responded it was related to the animal shelter.

Chair Duerr asked the members of the Commission what percentage they would like to set as the threshold. In response to a question from Member Nicolet, Attorney Gustafson and Vice Chair Sherman reiterated the threshold had been set at 90 percent since 2001 when the law went into effect. Member Nicolet wondered what reason there would be to lower the threshold or set it at 100 percent. Vice Chair Sherman replied that the 90 percent threshold had been selected to allow enough room under the property tax cap overlapping rate for certain rural parts of the County to have the opportunity to have a property tax increase on a ballot initiative. He provided the Gerlach General Improvement District and Incline Village as examples. He believed the 90 percent threshold was reasonable, and if it were set at 100 percent then no entity would ever be able to have a property tax increase on a ballot initiative. Chair Duerr wondered if proposals to increase property taxes would occur more often if the threshold was set at 75 percent and Vice Chair Sherman said it was possible. Chair Duerr opined the 90 percent threshold had been set as a number somewhere in the middle that would allow entities to come before the DMC with proposals to increase property taxes, but it would not happen often. Member Nicolet asked if the 90 percent threshold had been effective over the past 21 years and Vice Chair Sherman responded yes.

There was no response to the call for public comment.

On motion by Member Nicolet, seconded by Vice Chair Sherman, which motion duly carried on a 6-0 vote with Member Herman absent, it was ordered that the percentage called for in NRS 350.0155(1) be set at 90 percent.

22-031D **AGENDA ITEM 6** Review and accept the following 2022 Annual Reports from all Washoe County political subdivisions:

a. Debt Management Plans
b. Indebtedness Reports
c. Capital Improvement Plans

Chair Duerr shared that annual reports were required to be submitted to the Debt Management Commission (DMC) from all political subdivisions. The documents required included debt management plans, indebtedness reports, and capital improvement plans. The DMC was tasked with reviewing the documents and determining if it would accept the reports.

County Clerk Jan Galassini indicated reports were submitted from every entity except the Grandview Terrace Water District and the Verdi TV District. She noted they did not submit reports last year. Chair Duerr asked Deputy District Attorney Jennifer Gustafson if the DMC had any recourse to compel the entities to submit their reports. Attorney Gustafson responded the DMC's best option was to contact the entities. She was unsure if Grandview Terrace was still a functional entity, but she believed the Verdi TV District was. Ms. Galassini stated both entities had been contacted twice with no response. She noted Grandview Terrace had submitted financial documents to the State of Nevada Department of Taxation the previous year.

Vice Chair Sherman observed the entities were required to submit their documents to the Department of Taxation and the State had leverage through its Committee on Local Government Finance. He thought it was best handled by the State, noting the State could decide not to give the entities any more consolidated tax until the documents were provided. In response to a question from Chair Duerr, Ms. Galassini reiterated Grandview Terrace had submitted financial documents to the State but not to the DMC in 2021, and the Verdi TV District had not submitted documents to either. She was unsure when the 2022 documents were due to the State. Vice Chair Sherman believed it was on or after the end of the fiscal year.

There was no response to the call for public comment.

On motion by Vice Chair Sherman, seconded by Member Nicolet, which motion duly carried on a 6-0 vote with Member Herman absent, it was ordered that Agenda Item 6 be accepted.

22-032D **AGENDA ITEM 7** Discussion and possible action to set dates/times for DMC meetings for 2022/23 which must be held at least quarterly pursuant to NRS 350.012(3). Suggested dates are set forth below and the suggested time for the meetings is 11:00 a.m.

Friday, November 4, 2022
Friday, February 17, 2023
Friday, May 19, 2023
Friday, August 18, 2023

Deputy District Attorney Jennifer Gustafson informed that because 2023 was an odd-numbered year, the Debt Management Commission (DMC) was required to hold a meeting in January to select its two at-large members. In response to a question from Chair Duerr, Attorney Gustafson responded the DMC could not combine its January and February meetings; it was statutorily required to hold separate meetings. Chair Duerr proposed the DMC meet on Friday, January 20. Member Salazar informed she would not be able to attend the meeting proposed for May 19 if she was selected to serve again as an at-large member. Chair Duerr suggested the proposed date be changed to Thursday, May 18.

There was no response to the call for public comment.

On motion by Member Nicolet, seconded by Member Ainsworth, which motion duly carried on a 6-0 vote with Member Herman absent, it was ordered that the dates for the future Debt Management Commission meetings be Friday, November 4, 2022; Friday, January 20, 2023; Friday, February 17, 2023; Thursday, May 18, 2023; and Friday, August 18, 2023.

22-033D **AGENDA ITEM 8** Approval of the minutes for the DMC meeting of June 17, 2022. Commission members may identify any additions or corrections to the draft minutes as transcribed.

There was no response to the call for public comment.

On motion by Member Ainsworth, seconded by Member Salazar, which motion duly carried on a 5-0 vote with Member VanderWell abstaining and Member Herman absent, it was ordered that Agenda Item 8 be approved.

22-034D **AGENDA ITEM 11** Board Member Comments.

Chair Duerr requested that Brian Bonnenfant, Project Manager for the Center for Regional Studies with the University of Nevada, Reno's Small Business Development Center, give a presentation during the next meeting. She informed she would like to have a presentation on the state-level economic impacts of property taxes and abatement. She reminded that Vice Chair Sherman had asked for a presentation from the Washoe County Treasurer's Office.

Chair Duerr inquired about the potential agenda for the November meeting. County Clerk Jan Galassini shared Truckee Meadows Fire Protection District (TMFPD) may have a bond proposal to present.

22-035D **AGENDA ITEM 12** Public Comment.

On the call for public comment, City of Reno Finance Director Vicki Van Buren said she had one clarification for Agenda Item 9. She stated the project was approved by the Reno City Council through the budget process and included the American Flat project for advanced purified water. She observed the project as approved was anticipated to be an even split between connection fees and user fees. She noted the idea behind that was that both current and new users would benefit from the advanced purified water.

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1:00 p.m. There being no further business to discuss, the meeting was adjourned without objection.

_____
NAOMI DUERR, Chair
Debt Management Commission

ATTEST:

_____
JANIS GALASSINI, County Clerk
and Ex Officio Secretary,
Debt Management Commission

Minutes Prepared by
Lauren Morris, Deputy County Clerk