

**WASHOE COUNTY DEBT MANAGEMENT COMMISSION
SPECIAL MEETING**

TUESDAY

1:00 P.M.

APRIL 9, 2024

PRESENT:

Naomi Duerr, Reno City Council, Chair
Michelle Salazar, At-Large Member, Vice-Chair
Eugenia Bonnenfant, At-Large Member
Jeanne Herman, Washoe County Commissioner, Member
Dian VanderWell, Sparks City Council, Member (via Zoom)
Susan Severt, GID Representative, Member

Janis Galassini, County Clerk
Trenton Ross, Deputy District Attorney

ABSENT:

Adam Mayberry, Washoe County School District, Member

The Washoe County Debt Management Commission met in special session at 1:00 p.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:

21-008D **AGENDA ITEM 3** Public Comment.

There was no response to the call for public comment.

21-009D **AGENDA ITEM 4** 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 \$70,000,000; and approving certain details in connection therewith.

There was no response to the call for public comment.

The Assistant Finance Director for the City of Reno, Matthew Taylor, introduced Zions Public Finance Managing Director Andrew Artusa, who appeared via Zoom. Mr. Artusa also acted as the municipal advisor for the meeting. He referenced the proposal packet outlining the details regarding the approximately \$70 million in general obligation sewer bonds. He explained the bonds would be additionally secured and paid from the City of Reno's sanitary sewer system, and the bonds would fund a portion of the project. The project, Nevada Advanced Purified Water Facility at American Flat, was described as a joint venture between the City of Reno and the Truckee Meadows Water Authority (TMWA). It would be located at the Reno-Stead Water

Reclamation Facility (RSWRF) and operate as an effluent management solution for the City of Reno.

Mr. Artura referred to a summary of the criteria that were satisfied for the Debt Management Commission (DMC) to approve the proposal. The first criterion was the inclusion of the project in the City of Reno's Debt Management Policy along with the corresponding capital improvement plan (CIP). Both documents were filed with the Clerk of the Commission and the Nevada Department of Taxation. He indicated the statutory debt limit, which was 15 percent of the assessed valuation for the City of Reno, amounted to roughly \$2.2 billion. The City of Reno had an outstanding debt of approximately \$149 million, and with the addition of the proposed sewer bonds of approximately \$70 million, the total amount was still less than the statutory debt limit by over \$1.9 billion.

Addressing the criterion concerning the debt rate impact, Mr. Artura referenced the table titled Outstanding and Proposed Debt Service Requirements, located on page 8 of the proposal packet. He identified the assumed interest rate of 5 percent. He noted the 5 percent interest rate was significantly higher in the current market. He explained the City of Reno would still need to wait for several months before the bonds could be issued, and there was no way of determining the future interest rates. The 5 percent interest rate was used on the proposed \$70 million, which resulted in an amount of approximately \$5.6 million in debt service every fiscal year. He stated the City of Reno planned to issue the bonds through the State Revolving Fund (SRF), which provided low-cost loans to municipal governments for qualified projects. Mr. Artura mentioned the rate in the current market would be about 2.3 percent, so the \$5.6 million in annual debt service payments would be approximately \$4.4 million and, therefore, roughly \$1.2 million less than what was shown on page 8. He indicated the sewer fund would finance the rate, and other than the revenues from the City of Reno's Sanitary Sewer Fund, taxes were not anticipated to be used to pay for the annual rate.

Mr. Artura brought attention to the historical coverage, referenced on page 9 of the proposal packet, which was based on the actual and budgeted revenues of the Sanitary Sewer Fund. He pointed out there was over four times the coverage based on the budgeted amounts for 2024. He informed a proposal must show one times coverage for a proposal to be considered under Nevada law. Referencing the table located on page 10 of the proposal packet, Mr. Artura noted the 2024 net pledged revenues and the outstanding debt service, which was currently reimbursed by the Sanitary Sewer Fund. Accounting for the proposed debt service with the estimated rate of 5 percent, he indicated there was roughly 4.4 times coverage. He added there was no impact on the tax rate to be considered for affordability.

Chair Duerr's understanding was that the DMC would determine whether the proposed project was an appropriate expenditure for the City of Reno to pursue based on its finances and current indebtedness, bonds, and payment schedules. She questioned whether it was appropriate to discuss the details of the project. Mr. Artura stated the staff were prepared to answer questions about the project. He clarified that the primary concern for the DMC's consideration was ensuring the proposal would not affect the tax rate based on the information outlined in the packet.

Chair Duerr explained that the DMC prepared for matters like the proposed agenda item by undergoing training. She acknowledged that some Members did not have the opportunity to participate in the training. She entertained questions and input related to the agenda item.

Vice Chair Salazar clarified with Mr. Artura that the bonds were anticipated to be issued in December 2024, which Mr. Artura confirmed. Vice Chair Salazar asked if the financial plan would be updated as the date approached December 2024, to which Mr. Artura assured the City of Reno would consider doing so. He stated the interest rates were not expected to exceed the 5 percent interest rate cap, noting the rates had not exceeded that cap within the past 20 years. He explained the City of Reno was required to wait during a 90-day petition period, after which there would be two readings of a bond ordinance. During this time, the staff would review the final figure to ensure it was still compatible with the City of Reno's projected affordability.

Referencing Mr. Artura's statement that the interest rates had not exceeded 5 percent in the past 20 years, Chair Duerr requested an explanation. Mr. Artura stated the coupon rate of general obligation bonds was typically within the 5 percent range and had been during the previous 20 years. He mentioned there were much lower interest rate environments that had been experienced. He indicated the inflation and high rates were essentially short-term rates and explained if the City of Reno intended to issue the bond in the public market at this point and not opt for a 20-year borrowing through the SRF, it would still be within the 4 percent range in overall interest costs. He said the rates were still especially low for local governments despite information indicating that rates were significantly higher. Since the City of Reno would be using the SRF, Mr. Artura pointed out the 5 percent interest rate was positively a conservative assumption, and he stated the SRF provided exceedingly low and attractive rates. He recognized the City of Reno had taken advantage of the SRF program more often than most local governments and lowered its cost of capital on similar types of borrowings for projects that qualified for the SRF program.

Chair Duerr inquired about the rates for the SRF program, and Mr. Artura indicated the current rate was 2.3 percent. Responding to Chair Duerr's follow-up question about where the 5 percent and the 2.3 percent rates met, Mr. Altura stated the rates should never meet. Furthermore, the 5 percent rate was the maximum while the 2.3 percent was an example of the current rate. He mentioned the State's rate was 62.5 percent of the Bond Buyer Index, which was 3.68 percent as of Friday, April 5, 2024, which calculated to the referenced 2.3 percent. Chair Duerr asked if that rate was roughly what the City of Reno should expect, and Mr. Altura clarified that rate changed every week, but there was no expectation for it to exceed 5 percent. He confirmed the rate would typically remain under 3 percent.

Member Severt asked Mr. Artura to explain the coverage rate. Mr. Artura informed the coverage rate was based on the 2024 budgeted numbers, as it was a net pledge. He explained the calculation involved reducing the revenues by the operating expenditures. After subtracting approximately \$56 million from the roughly \$96 million in revenues, around \$41 million would be available as the net pledged revenue. He communicated the existing debt service would be closer to \$9.5 million despite the bonds. Assuming no growth and revenues over the course of the bonds' term, the coverage ratio would amount to approximately 4.4 times. Mr. Artura noted the coverage ratio would fluctuate because the other bond issues would pay off starting in 2041, and for the discussed bond issue, the first debt service payments would not occur until the fiscal year

(FY) 2025. He stated there was no reason the DMC would not approve the proposal provided that the coverage was over one.

Chair Duerr requested Mr. Artura to elaborate on the significance of the coverage ratio. Mr. Artura highlighted its importance in proving the affordability of the proposal and conveyed it was undesirable for the revenues to be lower than the ability to pay. He said a rate of one times the coverage ratio indicated the pledged revenues would equal the debt service; however, the pledged revenues for the proposal were significantly higher than the debt service by about four times. Chair Duerr noticed the coverage ratios were five through eight times in previous years, and Mr. Artura stated those ratios were derived before the issuance of the proposed bond issue, so it would decline. Chair Duerr asked if the bond issue would add to the existing debt and reduce the coverage ratio from eight to four times. Mr. Artura responded in the affirmative. Chair Duerr speculated the values decreased somewhat after a bond was issued, but then rose back up. Mr. Artura noted the revenues would also increase, and the expenditures might grow. He concluded there was a balancing effort involved with the finances. He pointed out the existing debt would eventually be paid off, so fluctuations and coverage would occur during the term of the debt service.

Referencing page 9 of the proposal packet, Member Bonnenfant observed a significant increase in total expenditures, primarily related to services and supplies and the joint sewer plant for 2024. She asked if that was an isolated occurrence or an element of the increased operation for which the bonds were needed. Mr. Artura explained the figures were budgeted numbers, so they were conservative projections, and there were expenditures related to operating the facilities that the projects were financing. Mr. Taylor stated the joint sewer plant referred to the TMWA plant, and he believed there was a large upcoming project related to the plant that would be included in the operating expense. He also believed the City of Reno hired some consultants to work on the proposed project in 2024. He referenced the revenue associated with connection charges for FY 2023/2024 and indicated the City of Reno increased its connection fees for all the facilities. He stated the connection charges remained flat because the City of Reno did not budget for those increased fees. Mr. Taylor mentioned the City of Reno staff were considering the current economy and the decrease in building permits. Based on the decrease in building permits and the increase in revenues, the revenues were anticipated to stay flat. He added that in the event building increased, there would be an observable increase in those revenues.

Chair Duerr noted the RSWRF's treatment capacity doubled from 2 million gallons per day (MGD) to 4 MGD, resulting in debt from the construction. She asked when that debt would be reimbursed. Mr. Taylor replied that the debt was acquired in 2020, and referencing page 10 of the proposal pack, he pointed out the debt coverage increased to 7.52 for 2025. He explained the reason was that the 2016 bonds would be paid off in 2025, causing a decrease in the overall debt, and the new debt would essentially replace the previous one. Chair Duerr confirmed with Mr. Taylor that the 7.5 coverage ratio declined to 4.3 because a portion of the debt would be reimbursed. He indicated the 2020 sewer bonds would be paid off in 2041, and once those bonds were settled, they were no longer reflected in the coverage ratio.

Chair Duerr asked if there was flexibility for additional expenses. Mr. Taylor specified the bylaws of the requirements indicated one times coverage was needed, so there would

need to be approximately \$31 million of annual payments that the City of Reno would be able to finance to meet the one times debt coverage. He added that would be a significant amount of debt.

Member Severt asked for clarification regarding the third footnote on page 9 of the proposal packet. Mr. Taylor stated page 9 only concerned cash flows. He added depreciation and amortization would be on a full accrual basis, and the cash was paid on the facilities. He indicated the facilities were used for over 30 years, and the associated amount depreciated each year, so the full upfront costs were exhibited. He explained the full accrual was the value determined by capitalizing the \$100 million used to pay for the facility and dispersing it over a span of 30 years, which was the length of time that the facility was used. Mr. Taylor clarified depreciation costs were not included.

Chair Duerr inquired whether depreciation costs received a budgetary line item to address them. Mr. Taylor indicated they were included in the annual budget for the sewer fund but not for other governmental funds.

City of Reno Assistant Director of Utility Services Dustin Waters noted the location of the project was in the North Valleys. He summarized the details of the project, which would entail the construction of a treatment facility located across the street from the RSWRF to further treat the effluent from the RSWRF until its quality was nearly drinking water standards. Using piping, that treated water would be carried roughly six miles north and injected into an aquifer in the ground of the American Flat farm location. The water would travel through the aquifer for a few years before eventually being extracted through the wells and deposited into TMWA's potable drinking water supply. Referencing Chair Duerr's input regarding the expansion of the RSWRF, Mr. Waters mentioned the RSWRF was recently expanded. He stated the amount of water that could be discharged from the RSWRF was currently limited to 2 MGD, so the project would enable the City of Reno to treat the additional 2 MGD and have it carried to the American Flat farm.

Chair Duerr commented that the new water was also being generated, and Mr. Waters added the project provided drought resiliency for the community. Chair Duerr stated that, from a water management perspective, the project was exceptionally innovative and had never been accomplished in Nevada. She divulged she had an opportunity to visit similar water treatment plants in California and mentioned their design was somewhat different, as they did not have the extra treatment stage referenced by Mr. Waters. She noted many of the California water treatment plants were embedded in the city. Chair Duerr briefly described the water treatment process for the plants in California.

Chair Duerr questioned whether there was a pilot process and inquired about the process of the project relating to the regulatory agencies in the State. Mr. Waters responded that there was a pilot project conducted a few years prior. He highlighted the three phases of the permitting process. The first phase involved obtaining the A+ permit. He explained once the project was constructed, the American Flat farm would be irrigated, and the water's quality would be tested to verify the processes were working as intended. The water would be injected into the ground in the second phase, and an underground injection permit would need to be obtained. The final phase would concentrate on accessing the TMWA's drinking water supply.

Chair Duerr asked about the American Flat farm, and Mr. Waters indicated it had been in place for multiple years for irrigation. He mentioned the RSWRF currently provided irrigation water to parks and golf courses. Chair Duerr thought it might be beneficial to add that irrigation was not necessary, and the farming activity of growing alfalfa was used so there would be a location to irrigate. Mr. Waters indicated the farmland was owned by Washoe County. The City of Reno was working with the County through the process of how ownership would be determined; however, the City of Reno or TMWA would likely gain ownership of the parcel. He disclosed there was an agreement in place with the farmer to maintain the farmland. He identified two purposes for the farm: to mitigate stormwater for Swan Lake and to verify water quality for the treatment process of the proposed project.

In response to Chair Duerr's inquiry regarding the extent of proving up the process, Mr. Waters stated all elements of the pilot project were successful, thereby indicating there were no further technical barriers related to the proposed project. He explained the rest of the process before executing the project pertained to community outreach. He mentioned an extensive outreach effort was carried out. The community feedback was mainly technical questions regarding how the water would be treated to achieve drinking water standards. He commented that the project was well-received overall.

Chair Duerr recalled a new process for treating the water, and Mr. Waters indicated several treatment steps, including ultraviolet (UV) and ozone. He added that a novel adsorbent would also be used to treat water for perfluoroalkyl and poly-fluoroalkyl substances (PFAS) that had been encountered in the community. He noted this was one of the constituents' emerging concerns that would be addressed.

Chair Duerr inquired about the overall number of water treatment plants in the Country that were like the proposed project, and Mr. Waters replied that he was uncertain about the answer. Responding to Chair Duerr's inquiry, the City of Reno Director of Utility Services Trina Magoon stated there were a number of similar facilities, including several in California and on the eastern seaboard. She indicated the difference in technology for the plants located on the eastern seaboard allowed for the ability to concentrate brine and deposit it into the ocean. She said the State had a different technology, which was undergoing the regulatory process to be constructed and advanced through the three permitting steps. Ms. Magoon mentioned many communities that were utilizing similar technology, which involved granular activated carbon and UV. She noted there were communities in such states as Colorado and Arizona that were undergoing the same process or had progressed further through the permitting process. While the Nevada regulations enabled the proposed project, it was the first of its kind in the State, so the City of Reno was cooperating with the Nevada Department of Environmental Protection (NDEP) to work through the permitting procedures. Ms. Magoon stated the City of Reno staff anticipated they would procure the conditional permit from NDEP by the late summer or early fall of 2024, which would allow the staff to begin construction by satisfying the conditions, testing the project, and finalizing all the steps described by Mr. Waters. During the testing phase, the water would not be used for public consumption. She noted it was necessary to prove the water quality was sufficient to inject into the ground. Irrigating the farm established the second phase of administering the water into the ground. After the water had moved through the aquifer for a number of years, it would be removed from the ground, which would irrigate the farm again, and the water would be

tested as it emerged to ensure it was drinking water quality at that point. Ms. Magoon mentioned effluent from the plant was used and transported to customers who used it to irrigate such areas as ball fields and golf courses. The effluent was transferred to Swan Lake during winter months when there was no irrigation demand, allowing it to evaporate. She indicated doing so allowed the City of Reno to use its resources, and because of the desert location of the community, the staff needed to be able to collect and reuse all the available water. The staff anticipated potentially emulating the same process for other plants.

Referring to Ms. Magoon's input, Chair Duerr commented in support of the proposed project and wondered about its potential use in Las Vegas, where there was a water shortage and other challenges. She believed the project had potential for many Nevada communities depending on the cost. She shared that she used to manage a State program that awarded grants to small water systems to help them comply with the Safe Drinking Water Act (SDWA), which cost millions of dollars at the time. She noted that as such substances as PFAS and other water quality requirements were assessed, the costs increased for rural water systems, but it was possible that the reinvestment toward costs could generate new water. Ms. Magoon agreed with Chair Duerr's comments. She mentioned the City of Reno was paying 70 percent while TMWA was paying 30 percent for upfront costs associated with the proposed project. She indicated TMWA viewed the project as a long-term resource. She emphasized the urgent need for the effluent management solution for the 2 to 4 MGD RSWRF expansion. Additionally, when the water was returned to TMWA's water distribution system, the City of Reno would sell water rights, and the revenue would be divided evenly with TMWA. Ms. Magoon said the proposed project benefited TMWA by documenting water resiliency and testing and certifying the efficacy of the technology, so its portfolio continued to be safe and sustainable while ensuring an alternative source of water for the community. Chair Duerr spoke positively about the City of Reno's ability to absorb the cost and the debt being discussed.

Ms. Magoon added the alternative to the proposed technology was possibly a large reservoir and indicated the cost was not dissimilar. She said water management was very expensive, but the technology was an exciting solution. She looked forward to the continued use of the technology. Chair Duerr commented that the County staff talked about storing the treated effluent in a reservoir for years. She noted how expensive it would have been and added the water would be subject to evaporation, resulting in a loss of a large amount of water. She described the technology as a major water conservation technique.

Member Herman commented that the proposed project was still a gamble and expressed her dissatisfaction with some of the endeavors that took place in her district and how the residents of that district were impacted.

There was no response to the final call for public comment.

Vice Chair Salazar moved that the proposal by the City of Reno to issue the City of Reno general obligation bonds in the maximum principal amount of \$70 million be approved. Member Bonnenfant seconded the motion.

Deputy District Attorney (DDA) Trenton Ross advised the agenda item required a two-thirds vote because it concerned a general obligation and a larger jurisdiction of over 5,000. Sherman and Howard Public Finance Attorney Ryan Henry, serving as bond counsel for the City of Reno, echoed DDA Ross's input and clarified the motion would need five of the Members' votes.

On motion by Vice Chair Salazar, seconded by Member Bonnenfant, which motion duly carried on a 5-1 vote with Member Herman voting no and Member Mayberry absent, it was ordered that Agenda Item 4 be approved.

21-010D **AGENDA ITEM 5** Approval of the minutes for the DMC meeting of February 16, 2024.

There was no response to the call for public comment.

On motion by Member Herman, seconded by Member Severt, which motion duly carried on a 6-0 vote with Member Mayberry absent, it was ordered that Agenda Item 5 be approved.

21-011D **AGENDA ITEM 13** Board Member Comments.

There were no Board Member comments.

21-012D **AGENDA ITEM 14** Public Comment.

City of Reno Director of Utility Services Trina Magoon thanked the Members for their consideration of Agenda Item 4 and for helping the City of Reno move the project forward.

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1:45 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
Danielle Howard, Deputy County Clerk*

Pending Board Approval