

**CARSON CITY DEBT MANAGEMENT COMMISSION**

Minutes of the September 24, 2001, Meeting

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A special meeting of the Carson City Debt Management Commission was held on Monday, September 24, 2001, at the City Manager's Conference Room, 201 North Carson Street, Carson City, Nevada, beginning at 5:15 p.m.

PRESENT: Chairperson Larry Osborne, Vice Chairperson Tracy Raxter, and Commissioners Ken Brown, John McKenna, and Richard S. Staub

STAFF PRESENT: Treasurer Al Kramer, Finance Director David Heath, and Recording Secretary Katherine McLaughlin (D.M.C. 9/24/01 Tape 1-0001.5)

OTHERS PRESENT: Financial Consultant Scott Nash and Bond Counselor Kendra Follett

**1. CALL TO ORDER AND ROLL CALL** - Chairperson Osborne convened the meeting at 5:15 p.m. Roll call was taken. A quorum was present although Commissioner Staub did not arrive until 5:18 p.m.

**2. DISCUSSION AND ACTION TO APPROVE JULY 16, 2001, MINUTES (1-0024.5)** - Commissioner Raxter moved to approve the Minutes of the July 16<sup>th</sup> meeting. Commissioner Brown seconded the motion. Motion carried 4-0.

**3. DISCUSSION AND ACTION ON A RESOLUTION CONCERNING THE SUBMISSION TO THE CARSON CITY DEBT MANAGEMENT COMMISSION OF PROPOSALS TO ISSUE GENERAL OBLIGATION SEWER BONDS (ADDITIONALLY SECURED BY PLEDGED REVENUES) IN THE AMOUNT OF \$5,000,000 AND WATER BONDS (ADDITIONALLY SECURED BY PLEDGED REVENUES) IN THE AMOUNT OF \$5,000,000; CONCERNING ACTION TAKEN THEREON BY THE COMMISSION; AND APPROVING CERTAIN DETAILS IN CONNECTION THEREWITH (1-0040)** - Mr. Nash reviewed the financial information criteria, the public noticing requirements, and the proposal to issue the bonds in January or February. (Commissioner Staub arrived during his explanation.) Commissioner Staub moved to adopt Resolution 2001-DMCR-3, A RESOLUTION CONCERNING THE TO ISSUE GENERAL OBLIGATION SEWER BONDS ADDITIONALLY SECURED BY PLEDGED REVENUES) IN THE AMOUNT OF \$5,000,000 AND WATER BONDS (ADDITIONALLY SECURED BY PLEDGED REVENUES) IN THE AMOUNT OF \$5,000,000 AND CERTAIN DETAILS IN CONNECTION THEREWITH. Commissioner Raxter seconded the motion. Motion carried 5-0.

**4. DISCUSSION AND ACTION REGARDING THE HOSPITAL BONDS INCLUDING: HOW THE INDEBTEDNESS IS TRANSFERRED TO THE NON-PROFIT CORPORATION, HOW THE HOSPITAL'S BONDED INDEBTEDNESS IS REMOVED FROM THE CITY'S BOND CAPACITY, HOW FUTURE BONDS ARE OBTAINED BY THE NON-PROFIT HOSPITAL CORPORATION, AND/OR THE POSSIBILITY OF A FUTURE IMPACT ON THE CITY'S BONDING CAPACITY AND/OR TAXPAYERS (1-0205)** - Ms. Follett explained the

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economic bond law which enables the Hospital to obtain tax exempt bonds for its projects. The City/County issuing the bonds is not responsible for their repayment. The 501c3 nonprofit corporation is obligated to repay the economic bonds. The economic bond money is used to defease the current outstanding Hospital bonds. These funds are held in an escrow account which removes the current Hospital bonds from the City's list of obligations. Future bonds will be issued under the economic development bond laws which requires the City to approve the bond issues on behalf of the Hospital. These bonds do not impact the City's bond capacity. There will be an agreement between the City and the Hospital regarding the Hospital's obligation to repay the bonds. The Hospital cannot levy an ad valorem rate to cover the bond obligation. It must use its revenue source(s). A letter of credit or a similar vehicle can be used to backup the Hospital's ability to repay the bonds. If the Hospital cannot repay the bonds and a letter of credit was not obtained, the bonds will go into default. The City will not be financially obligated to repay the bonds. The City does have an obligation to obtain a letter of credit or bond insurance to insure that the bonds will be repaid. She felt that the Hospital is analyzing acquisition of bond insurance. A letter of credit or bond insurance will give the Hospital a better rating and interest rate. She agreed that while the City would not be obligated to repay the bonds, a default would have to be disclosed to any future lenders/bond holders. The market understands that economic development bonds are conduit bonds and that the City does not have an obligation to repay the bonds. Her experience had not included whether a failure would impact the City's bond rating. Mr. Nash did not feel that it would impact the City's general obligation bond rating as the security is exclusively from the revenue generated by the project and the bonds are not dependent upon another revenue source. Investor's understand that and that the City's is not obligated to repay the bonds. He agreed that the investors would look to deep pockets if a problem arises but the City is not liable. He also indicated that economic development bonds do not require approval by the Commission. Discussion indicated that the Hospital has \$5 million in GO bonds and \$10 million in GO revenue bonds. These bonds currently count against the City's debt limit and they will disappear once the bonds are defeased. This will add capacity to the City's bonding capacity. The Hospital proposes to sell \$15+ million which will include the interest. Accounting rules regulating how the escrow funds are accounted for explained that these funds are held by a trustee outside the City and the Hospital. Therefore, the funds are neither an asset nor a liability on the City's books once the escrow is established. The bonds are paid directly from the escrow account. Any responsibility of the City if these funds should disappear are very remote. The auditor will include the funds/liability as a footnote in his/her annual report. Mr. McKenna explained his desire to ensure that the liability is removed from the City's bonding capacity. Mr. Nash reiterated that the defeasance bonds will remove the Hospital's GO and GO revenue bonds from the City's list. No formal action was required or taken.

### **5. DISCUSSION AND ACTION REGARDING THE REQUIREMENTS OF SENATE BILL 123 WHICH MAKES VARIOUS CHANGES CONCERNING MUNICIPAL OBLIGATIONS AND PROCEDURES OF DEBT MANAGEMENT COMMISSIONS (1-0510) - Mr. Heath**

distributed a synopsis which had been prepared by Bond Counsel to the Commission and Clerk. (A copy is in the file.) Discussion noted that the City and the School District are the only taxing entities in Carson City. This is not the case in other areas. The City is well under its tax cap. The Commission must establish a percentage between 70 and 99 percent that will be used to trigger when consideration is to be

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given to public need and when the approval from other entities must be obtained before bonds above that amount can be issued. The Commission also needed to establish priorities between essential and non-essential services or facilities. Essential facilities are defined as public safety, education and health items. All others are considered non-essential. The Commission could also prioritize both the essential and non-essential services/facilities. The Bill was an attempt to address the tax cap creeping to the limits by providing the Commission with oversight abilities. It was hoped that the changes will allow the Commission to manage the creep toward the \$3.64 limit. Several Counties had reach the cap and were going broke. Previous rules had not given the Commission the ability to manage the debt if capacity was available. Discussion ensued on the percentage which the Commission should set and noted that the City is currently at \$2.58. The other Counties are staying with the 90 percent ratio with the exception of Clark County who is going to 85 percent. Mr. Nash explained that when the City reaches the percentage as established, the Commission can then evaluate the project and any competing projects. The regulation will eliminate the current "first come, first served" and "hogging" the funding. Ms. Follett explained her feeling that the July filings will become more important under this program as it will require five year plans. The Statute had become effective on July 1. Clarification indicated that the establishment of priorities occurs only after the 90 percent is reach. Discussion then explained that the Commission could establish procedures for resolving conflicts should the percentage figure be reached. Examples were discussed to illustrate that the need for a project is not considered if there is capacity below the established percentage. Chairperson Osborne explained his feeling that the cap will be raised before the City reaches it. If the Commission decides to change the percentage in the future, it had the ability to do so at an annual meeting. Commissioner McKenna moved to establish 90 percent for the purposes of NRS 350.005B. Commissioner Staub seconded the motion. Motion carried 5-0.

Discussion directed staff to develop procedures as suggested to resolve conflicts, establish the highest and best use, and establishing a procedure that will allow municipalities to reserve a percentage of the remaining allowable property taxes for use in the future. Chairperson Osborne asked that Mr. Heath check into what other Counties had done and bring this information to the July meeting. Discussion indicated that the direction should be made as a motion. Commissioner McKenna then moved to direct staff to develop procedures as suggested to resolve conflicts, establish the highest and best use, and establish a procedure that will allow for reserving a percentage of the remaining allowable property taxes for use in the future as recommended in the synopsis which is to be acted upon by the Commission at its July meeting. Commissioner Staub seconded the motion. Motion carried 5-0.

Discussion ensued on the status of a previous Commission action to reserve \$10 million in bonding capacity. The City's bond capacity has since grown and this limit had not been reached. Chairperson Osborne directed staff to check into the status of this action. He also indicated that there will be major unnamed requests coming to the Commission in the future. No action was taken on this item.

### **6. DISCUSSION AND ACTION ESTABLISHING FUTURE MEETING DATES AND TIMES**

**(1-1240)** - Staff was directed to establish a date and location and advise the Commission.

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**7. CITIZEN COMMENTS (1-1268) - None.**

**8. COMMISSION COMMENTS (1-1270) - None.**

**9. ADJOURNMENT (1-1272) -** Commissioner McKenna moved to adjourn. Commissioner Staub seconded the motion. Motion carried 5-0. Chairperson Osborne adjourned the meeting at 5:55 p.m.

A tape recording of these proceedings is on file in the Clerk-Recorder's office. This tape is available for review and inspection during normal business hours.

The Minutes of the September 24, 2001, Carson City Debt Management Commission meeting

ARE SO APPROVED ON February 27, 2002.

/s/ \_\_\_\_\_  
Larry Osborne, Chairperson