Administrative Regulation 3230
DEBT MANAGEMENT

Responsible Office: Office of Business and Finance

PURPOSE

This Administrative Regulation applies to the issuance and servicing of all publicly or privately sold debt issued by the District, including all tax-exempt and taxable debt, whether those are medium- or long-term bonds. In this context, debt does not include other long-term obligations as recorded in the District's financial statements such as compensated absences nor loans from the State. Installment-purchase agreements are separately considered in a separate administrative regulation.

DEFINITIONS

1. "Arbitrage" in this context refers to the portion of the investment yield on interest earnings earned on bond proceeds that is in excess of the "arbitrage yield" of the bonds (i.e., the time-weighted yield of the bonds sold, which is close to the "True Interest Cost" of the bonds).

2. "Coverage" is the ratio of estimated revenues pledged for payment of debt service in excess of the current year or future years' debt service. A coverage ratio of 30%, for example, means that an agency's pledged revenues are 130% of annual debt service.

3. "General obligation bonds" represent debt issued by a local agency that pledge the "full faith and credit" of the agency. In Nevada, primary security for such bonds is the property tax. However, all resources of the District are available for repayment of general obligation debt in the event of a default.

4. "Long term bonds" refers to bonds with a maturity greater than 10 years, in accordance with state law. The federal government considers any debt with a maturity longer than 13 months to be long-term debt, however.

5. "Medium term bonds" refers to bonds with a maturity of less than 10 years, in accordance with NRS 350.087 et. seq.

6. "Revenue bonds" are special obligations, as defined by Nevada Revised Statutes (NRS). The sole security for such bonds is the revenue source identified to pay debt service. In the event of a default, bondholders generally have no recourse for payment of the debt other than the funding identified by the agency and use of the debt-financed facility.

7. "Roll over bonds" refers to general obligation bonds that pledge the District's property tax debt rate as authorized by either the voter-approved or legislatively

approved 10-year bond issuance program. Presently, this authorization expires in 2035.

8. "WC-1 bonds" refers to general obligation bonds that pledge revenues received from the $0.54 sales tax approved by Washoe County voters in November 2016. The District may also choose to issue revenue bonds that pledge this revenue source, but due to the higher interest costs for revenue bonds, the District has chosen not to issue this type of debt.

REGULATION

1. Types of debt authorized by state law for school districts are:
   a. General Obligation Bonds Paid by Property Tax – these are referred to as "rollover bonds" due to the fact that authorization of school district property tax-backed general obligation bonds has been rolled over a number of times;
   b. General Obligation Revenue Supported Bonds – these bonds are supported by a different revenue other than property taxes, even though property taxes are a secondary source of payment. WC-1 bonds are an example of this type of debt;
   c. Medium Term Bonds; and
   d. Revenue bonds.
2. Debt should be used to finance essential capital facilities, projects, and certain equipment when it is cost-effective and fiscally prudent. The level of indebtedness incurred by the District represents a significant obligation of taxpayers; therefore, prior to the issuance of any debt or lease financing, the Chief Financial Officer shall consider various factors including compliance with all applicable laws, debt affordability and debt capacity requirements, the availability of other funding sources such as cash and the integration of debt within the overall capital planning efforts of the District.
3. Generally, the use of pay-as-you-go (PAYGO) or cash funding of capital improvements is preferable over the issuance of debt, which carries interest costs, when sufficient cash reserves are available. However, there are times when preservation of cash is a justifiable reason for issuing debt. The use of long-term debt for new long-term facilities also provides for intergenerational equity, as future generations that use those facilities help to pay for the facility. Prior to recommending the issuance of long-term debt to the Board of Trustees (Board), the Chief Financial Officer will analyze the use of PAYGO versus debt. In doing so, the Chief Financial Officer will consider the following factors:

a. Level of cash reserves available to the District, both in the short-term and long-term based on projected revenues and capital improvement requirements of the District;

b. Rate of investment return on cash compared to long-term debt financing costs;

c. Debt affordability and debt capacity metrics; and

d. Current capital market rates for long-term debt.

4. Issuance of New Debt

a. Debt should be contemplated in the context of the District's overall capital improvement plan (CIP) when cash resources are inadequate to fund needed capital projects, as noted above. Annually, the Chief Financial Officer and business employees work with the District's Financial Advisor (FA), Chief Operations Officer and other capital project employees as needed in developing the CIP. Contemplated new debt should also be included in the annual budget.

b. In compliance with the Internal Revenue Code, the District will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as reflected in the CIP to initiate a bonded project. The minimum goal will be that within six months, 5% of the proceeds will be spent, and within three years, 85% of the proceeds will be spent.

c. Due to the complexity of debt and associated state and federal requirements, the District shall engage outside consultants as its financing team to include at a minimum a municipal financial advisor (FA) registered by the Municipal Securities Rulesmaking Board (MSRB), bond counsel, and disclosure counsel (or "special counsel"). For a negotiated sale, the County will also need to select an underwriting team, which includes underwriter's counsel. The only exception to the above requirement is that the District can choose to issue privately placed medium term bonds without an FA.

d. When capital projects require debt financing, the Chief Financial Officer shall prepare a revenue sufficiency analysis, comparing available revenues pledged for payment of debt against existing and proposed debt, and evaluating the level of coverage and different economic scenarios. Coverage should be adequate to provide for payment of debt service in different economic scenarios, not just for a positive economic scenario.

e. Medium term bonds should generally be used over long-term bonds when available revenue sources allow for the capital project or equipment to be financed with a term of less than 10 years, in the context of the overall CIP. If the useful life of the capital project or equipment is less than 10 years, medium term bonds must be used.

f. Tax-exempt bonds provide an advantage over taxable debt because of their lower interest rates and thus are preferred with certain exceptions. These exceptions include:

   i. During certain anomalous times, rates for taxable debt may be very close to tax-exempt debt, and in certain times, there may be market disruptions in the tax-exempt municipal bond market. The universe of buyers of taxable debt is also greater than the municipal market. In such cases, taxable debt may be preferred;

   ii. Advance refundings of tax-exempt debt, which were common, have been prohibited by the federal government. A taxable advanced refunding may be advantageous versus waiting to refund debt as a current refunding; and

   iii. Certain purposes, as advised by bond counsel, such as pension obligation bonds must be issued as taxable bonds.

g. Structuring of Bonds - the Chief Financial Officer will work with the financing team to issue the bonds for the District. Key decisions involved in the structuring of long-term debt include:

   i. Private Placement versus Open Market Sale;

   ii. Open Market Sale - Competitive versus Negotiated – The Debt Management Policy provides parameters for when a negotiated sale may be prudent. The default mode is a competitive sale to ensure fairness and best pricing;

   iii. Term - there are IRS rules on the maximum term of debt based on the useful life of the assets being financed. In addition, the overall debt profile of the District and structure of existing debt should be considered when determining the term (i.e., 20 versus 30 years); and

   iv. Structure of Debt Service – the District will work with its financial advisor to determine the appropriate structure and amortization of debt to include, as appropriate, determinations on the use of premium versus discounted bonds, interest payment intervals, the maturity of the debt, term bonds versus serial bonds, the use of credit enhancement, and call provisions. In the case of competitive sales, some of these structural features may be left to the underwriting firms bidding on our debt.

v. Issuance of new debt requires preparation of a Preliminary Official Statement (POS) and, after the sale of bonds, a Final Official Statement (OS). The POS is the primary disclosure document issued by a governmental entity prior to the sale of bond that is used by investors to learn about the entity and the securities that are being sold in the primary market. The POS is subject to requirements established by the Securities and Exchange Commission (SEC) and must fully and completely disclose financial information of the District. The POS should be distributed to the Board, either as an attachment to the staff report requesting approval of the bond resolution or separately.

5. Investment of Bond Proceeds. NRS Chapter 350 lists the specific asset classes that bond proceeds may be invested in, which differs from statutes concerning other District assets. Therefore, bond proceeds will be invested separately in a bond pool administered by the District in compliance with District Board Policies and Administrative Regulations Nevada law (NRS Chapter 350), and applicable bond indentures.

6. Monitoring of Debt. Funding of school districts' capital needs and debt obligations are presently considered a local agency's obligation, rather than a State obligation. Therefore, there are specific capital revenues the District receives. The Chief Financial Officer shall monitor these revenues and, in the case of a significant reduction of revenues during the year, shall evaluate the impact to the District's ability to service debt. In situations in which current year revenues or projected future revenues may be insufficient to pay debt service, the Superintendent and Chief Financial Officer will report on potential options to cover debt service to the Board.

7. Fund Reserves. NRS 350.020 requires a certain level of fund balance, or reserves, based on different formulas. The reason for such a reserve is to be able to cover a portion of annual debt service if current year revenues are insufficient to cover debt service payments. The District shall calculate this requirement annually as part of the preparation of its financial statements and shall always meet or exceed the minimum statutory requirement.

8. Refinancing of Existing Debt. The District and/or its FA shall monitor current rates in the municipal bond market to identify bonds that can be refinanced to achieve true savings for the District as market opportunities arise. The guideline to be used on determining whether refunding should be transacted is if a present value savings (net of expenses) of at least 3% can be achieved on the principal amount of debt being refunded. The District may consider refundings that differ from these target guidelines on a case-by-case basis. As such, the District may consider the restructuring of a particular debt financing in order to smooth out the District's aggregate annual debt service costs. Refundings with aggregate

negative present value savings will not be considered unless there is a compelling public policy objective.

9. Debt Service Payments

    a. The Office of Business and Finance shall maintain a comprehensive annual debt service schedule containing the due dates and payment amounts.

    b. Approximately one week prior to the due date, the Controller's Office shall input the debt service payment into the District's financial system and banking software and shall make timely payment of principal and interest payments.

10. Credit Ratings

    a. For issuance of its debt, the District shall request ratings from at least two nationally recognized credit rating services (e.g., Moody's, Standard & Poor's, Fitch, etc.). In addition, rating agencies monitor the District's financial condition based on published financial statements and other data and may update their ratings periodically.

    b. The Superintendent shall report on changes to the District's long-term credit rating to the Board.

    c. The District shall strive to maintain a minimum long-term general obligation rating of single A (i.e., A- or A3).

11. Ongoing State Requirements regarding Debt

    a. In accordance with NRS 350.013, the District will prepare an annual debt management policy. This should be distributed to the State Department of Taxation and to the County Clerk for distribution to the county debt management commission by August 1 of each year.

        i. Any new debt contemplated for the fiscal year should be included here and should match what is proposed in the District's annual budget.

        ii. An agency in a county with a population over 100,000 is allowed to update or modify its debt management policy as needed.

    b. In accordance with NRS 350.013(1), the District will also prepare an annual statement of indebtedness. The form of the indebtedness report is determined by the State Department of Taxation and Committee on Local Government Finance (CLGF). This should be completed and distributed to the State Department of Taxation and to the County Clerk for distribution to the county debt management commission by August 1 of each year.

12. Ongoing Federal Requirements regarding Debt

    a. An entity that issues tax-exempt debt must calculate arbitrage earnings and remit any arbitrage every five years, based on the date of the bonds. Annually, the District should estimate arbitrage, so that it may reserve any positive arbitrage that will be due to the federal government. If the District estimates there may be positive arbitrage, it shall contract with an accounting firm or consultant that is experienced in arbitrage calculations to calculate a more precise estimate prior to the five-year date.

    b. The District shall remain in compliance with SEC and MSRB continuing disclosure requirements by posting its audited financial statements; annual information and operating data and notice of those material events which may occur during the year as SEC Rule 15c2-12 requires.

    c. The District and its financing team shall monitor whether certain “material events”, as defined by the SEC, have occurred. Material events must be reported within 10 business days of their occurrence. The most common events are rating changes or delinquencies of debt service payments.

LEGAL REQUIREMENTS AND ASSOCIATED DOCUMENTS

1. This Administrative Regulation reflects the goals of the District’s Strategic Plan, and aligns/complies with the governing documents of the District, to include:

    a. Board Policy 3100, Financial Services.

2. This Administrative Regulation complies with Nevada Revised Statutes (NRS) and Nevada Administrative Code (NAC), to include:

    a. NRS Chapter 350, Municipal Obligations.

REGULATION HISTORY

Date	Revision	Modification
11/18/2021	1.0	Adopted