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SB222 Testimony

GOOD AFTERNOON, FOR THE RECORD MY NAME IS TOM CIESYNSKI, CHIEF ACCOUNTANT FOR THE WASHOE COUNTY SCHOOL DISTRICT.

I WOULD LIKE TO ADDRESS A NUMBER OF FISCAL CONCERNS THAT RELATE TO THIS BILL:

1. ARBITRAGE REBATE – ARBITRAGE IS THE MAXIMUM INTEREST THAT THE INTERNAL REVENUE SERVICE ALLOWS AN ENTITY TO EARN ON BOND PROCEEDS. THE CONCERN HERE IS THAT THIS BILL WOULD NOW HAVE THE DISTRICT AND ONE OR MORE CHARTER SCHOOLS SHARE BOND PROCEEDS. THE QUESTION BECOMES HOW TO ACCOUNT FOR MUTIPLE EARNERS OF INTEREST AND WHO IS ULTIMATELY RESPONSIBLE FOR REBATE CALCULATIONS AND PAYMENTS TO THE IRS, ESPECIALLY IF A CHARTER SCHOOL CLOSES.

2. <u>BOND RATINGS</u> - WHEN BONDS ARE ISSUED, RATING AGENCIES REVIEW THE CREDIT WORTHINESS OF THE ENTITY FOR WHOM THE BONDS ARE ISSUED. IF AN ENTITY HAS A POOR FINANCIAL HISTORY, THE BOND RATINGS ARE DOWNGRADED AND BONDS ARE ISSUED AT HIGHER INTEREST COSTS TO THE TAXPAYERS. THIS IS A HIGH CONCERN FOR OUR DISTRICT, GIVEN THAT SOME CHARTER SCHOOLS HAVE HAD AND CONTINUE TO HAVE, WEAK FINANCIAL MANAGEMENT HISTORIES.

3. <u>DEBT COVENENTS</u> - WHEN DEBT IS ISSUED, RULES GOVERNING HOW DEBT IS USED AND REPAID MUST BE FOLLOWED. THE CONCERN HERE IS THAT IF A CHARTER SCHOOL FAILS TO FOLLOW DEBT COVENENTS, THE DISTRICT'S DEBT COULD BE CONSIDERED IN VIOLATION OF FAILING TO FOLLOW RULES, FOR ACTIONS THEY HAD NO CONTROL OF.

4. <u>INSURANCE</u> - PROVIDING THE APPROPRIATE LEVEL OF INSURANCE FOR CAPITAL PROJECTS FINANCED BY BOND PROCEEDS IS ANOTHER CONCERN. OUR DISTRICT HAS IN PLACE THE APPROPRIATE INSURANCE FOR THEIR PROJECTS, BUT THE QUESTION IS DOES A CHARTER SCHOOL HAVE THIS INSURANCE AND IF THE FAILS TO GET IT, WHAT IS THE POTENTIAL EXPOSURE FOR THE IMPACTED PROJECT.

5. <u>BOND REFUNDINGS</u> - IF A DISTRICT CHOOSES TO REFUND DEBT TO SAVE TAXPAYERS INTEREST, THIS BILL DOES NOT CLEARLY PROVIDE THAT THE REFUNDED PROCEEDS WILL GO TO PAY FOR THE PAST DEBT.(IE REFUNDED PROCEEDS COULD BE ALLOCATED TO A CHARTER SCHOOL OR SCHOOLS). THIS WOULD IMPAIR THE COST SAVINGS EFFORT OF A DISTRICT, IF THIS WERE THE CASE.

IN CLOSING, THESE ARE SOME OF THE MORE COMPELLING FISCAL ISSUES THAT RELATE TO SB222. PLEASE LET ME EMPHASIZE THAT THE FAILURE TO PROPERLY ADMINISTER BOND PROCEEDS, AS DISCUSSED IN POINTS ABOVE, WILL PROBABLY COST A DISTRICT ITS TAX EXEMPT STATUS ON BONDS, WHICH WILL COST TAXPAYERS MILLIONS OF DOLLARS. PLEASE TAKE THESE ISSUES INTO CONSIDERATION IN YOUR DELIBERATIONS AND THANK YOU FOR YOUR TIME TODAY.