

ASSEMBLY BILL NO. 615—COMMITTEE ON WAYS AND MEANS

MAY 11, 2007

Referred to Committee on Ways and Means

SUMMARY—Makes various changes concerning local financial administration. (BDR 30-1474)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State: No.

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EXPLANATION – Matter in *bolded italics* is new; matter between brackets ~~omitted material~~ is material to be omitted.

AN ACT relating to local financial administration; revising provisions governing certain general obligations of school districts; revising provisions governing loans from the investment portfolios of certain cities and consolidated municipalities; revising provisions governing the guarantee of bonds of school districts with money from the State Permanent School Fund; and providing other matters properly relating thereto.

Legislative Counsel's Digest:

Under existing law, if a municipality proposes to issue or incur general obligation bonds, the proposal must be submitted to the electors at an election. Existing law provides an exception from this election requirement for the issuance of general obligation bonds of school districts if the issuance of the bonds is not expected to result in an increase in the existing property tax levy and the electors have approved a question that authorizes the issuance of bonds for 10 years after the date of approval. (NRS 350.020) **Section 1** of this bill provides that such a question may authorize the transfer of any excess revenue generated to the fund for capital projects of the school district for the payment of capital projects which can lawfully be paid from that fund.

Existing law authorizes the investment and reinvestment of revenues and proceeds of bonds by an investment contract that is collateralized with federal securities in a municipality whose population is 50,000 or more for which the amount of principal of the original issuance was \$10,000,000 or more. (NRS 350.659) **Section 2** of this bill revises these provisions to apply to a local government in a county whose population is 20,000 or more for which the amount of principal of the original issuance was \$5,000,000 or more. **Section 2** also imposes additional conditions for the investment and reinvestment.

Existing law authorizes the governing body of a city or consolidated municipality whose population is 60,000 or more but less than 150,000 (currently



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North Las Vegas and Sparks) to lend securities from its investment portfolio under certain circumstances. (NRS 355.178) **Section 3** of this bill changes the range of population to include a city or consolidated municipality whose population is 25,000 or more but less than 150,000 (currently North Las Vegas, Sparks and Carson City).

Existing law authorizes the board of trustees of a school district to apply to the State Treasurer for a guarantee agreement whereby money in the State Permanent School Fund is used to guarantee the payment of the debt service on bonds of the school district. The amount of the guarantee of each school district outstanding at any one time must not exceed \$25,000,000. (NRS 387.513-387.528) **Section 4** of this bill increases the amount of the guarantee of each school district outstanding at any one time to \$40,000,000.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN
SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. NRS 350.020 is hereby amended to read as follows:

350.020 1. Except as otherwise provided by subsections 3 and 4, if a municipality proposes to issue or incur general obligations, the proposal must be submitted to the electors of the municipality at a special election called for that purpose or the next general municipal election or general state election.

2. Such a special election may be held:

(a) At any time, including, without limitation, on the date of a primary municipal election or a primary state election, if the governing body of the municipality determines, by a unanimous vote, that an emergency exists; or

(b) On the first Tuesday after the first Monday in June of an odd-numbered year.

➤ The determination made by the governing body is conclusive unless it is shown that the governing body acted with fraud or a gross abuse of discretion. An action to challenge the determination made by the governing body must be commenced within 15 days after the governing body's determination is final. As used in this subsection, "emergency" means any occurrence or combination of occurrences which requires immediate action by the governing body of the municipality to prevent or mitigate a substantial financial loss to the municipality or to enable the governing body to provide an essential service to the residents of the municipality.

3. If payment of a general obligation of the municipality is additionally secured by a pledge of gross or net revenue of a project to be financed by its issue, and the governing body determines, by an affirmative vote of two-thirds of the members elected to the governing body, that the pledged revenue will at least equal the amount required in each year for the payment of interest and principal, without regard to any option reserved by the municipality



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1 for early redemption, the municipality may, after a public hearing,
2 incur this general obligation without an election unless, within 90
3 days after publication of a resolution of intent to issue the bonds, a
4 petition is presented to the governing body signed by not less than 5
5 percent of the registered voters of the municipality. Any member
6 elected to the governing body whose authority to vote is limited by
7 charter, statute or otherwise may vote on the determination required
8 to be made by the governing body pursuant to this subsection. The
9 determination by the governing body becomes conclusive on the last
10 day for filing the petition. For the purpose of this subsection, the
11 number of registered voters must be determined as of the close of
12 registration for the last preceding general election. The resolution of
13 intent need not be published in full, but the publication must include
14 the amount of the obligation and the purpose for which it is to be
15 incurred. Notice of the public hearing must be published at least 10
16 days before the day of the hearing. The publications must be made
17 once in a newspaper of general circulation in the municipality.
18 When published, the notice of the public hearing must be at least as
19 large as 5 inches high by 4 inches wide.

20 4. The board of trustees of a school district may issue general
21 obligation bonds which are not expected to result in an increase in
22 the existing property tax levy for the payment of bonds of the school
23 district without holding an election for each issuance of the bonds if
24 the qualified electors approve a question submitted by the board of
25 trustees that authorizes issuance of bonds for a period of 10 years
26 after the date of approval by the voters. If the question is approved,
27 the board of trustees of the school district may issue the bonds for a
28 period of 10 years after the date of approval by the voters, after
29 obtaining the approval of the debt management commission in the
30 county in which the school district is located and, in a county whose
31 population is 100,000 or more, the approval of the oversight panel
32 for school facilities established pursuant to NRS 393.092 in that
33 county, if the board of trustees of the school district finds that the
34 existing tax for debt service will at least equal the amount required
35 to pay the principal and interest on the outstanding general
36 obligations of the school district and the general obligations
37 proposed to be issued. The finding made by the board of trustees is
38 conclusive in the absence of fraud or gross abuse of discretion. As
39 used in this subsection, "general obligations" does not include
40 medium-term obligations issued pursuant to NRS 350.087 to
41 350.095, inclusive.

42 5. At the time of issuance of bonds authorized pursuant to
43 subsection 4, the board of trustees shall establish a reserve account
44 in its debt service fund for payment of the outstanding bonds of the
45 school district. The reserve account must be established and



maintained in an amount at least equal to the lesser of the amount of principal and interest payments due on all of the outstanding bonds of the school district in the next fiscal year or 10 percent of the outstanding principal amount of the outstanding bonds of the school district. If the amount in the reserve account falls below the amount required by this subsection:

(a) The board of trustees shall not issue additional bonds pursuant to subsection 4 until the reserve account is restored to the level required by this subsection; and

(b) The board of trustees shall apply all of the taxes levied by the school district for payment of bonds of the school district that are not needed for payment of the principal and interest on bonds of the school district in the current fiscal year to restore the reserve account to the level required pursuant to this subsection.

6. *A question presented to the voters pursuant to subsection 4 may authorize all or a portion of the revenue generated by the debt rate which is in excess of the amount required:*

(a) For debt service in the current fiscal year;

(b) For other purposes related to the bonds by the instrument pursuant to which the bonds were issued; and

(c) To maintain the reserve account required pursuant to subsection 5,

↪ to be transferred to the county school district's fund for capital projects established pursuant to NRS 387.328 and used to pay the cost of capital projects which can lawfully be paid from that fund. Any such transfer must not limit the ability of the school district to issue bonds during the period of voter authorization if the findings and approvals required by subsection 4 are obtained.

7. A municipality may issue special or medium-term obligations without an election.

Sec. 2. NRS 350.659 is hereby amended to read as follows:

350.659 The governing body of a ~~{municipality}~~ *local government in a county* whose population is ~~{50,000}~~ *20,000* or more, subject to any contractual limitations from time to time imposed upon the ~~{municipality}~~ *local government* by any ordinance authorizing the issuance of outstanding securities of the ~~{municipality}~~ *local government* or by any trust indenture or other proceedings appertaining thereto, may cause to be invested and reinvested, except as otherwise provided in NRS 350.698, any proceeds of taxes, any pledged revenues and any proceeds of bonds or other ~~{municipal}~~ *local government* securities issued hereunder for which the amount of the principal of the original issuance was ~~{\$10,000,000}~~ *\$5,000,000* or more in an investment contract that is collateralized with securities issued by the Federal Government or agencies of the Federal Government if:



1 1. The collateral has a market value of at least 102 percent of
2 the amount invested and any accrued unpaid interest thereon;

3 2. *In a county whose population is 20,000 or more but less*
4 *than 50,000:*

5 (a) *The local government employs a full-time finance director;*
6 *and*

7 (b) *The terms of the investment contract have been reviewed by*
8 *independent bond counsel, who has determined that the contract*
9 *complies with this section;*

10 3. The ~~{municipality}~~ *local government* receives a security
11 interest in the collateral that is fully perfected and the collateral is
12 held in custody for the ~~{municipality}~~ *local government* or its
13 trustee by a third-party agent of the ~~{municipality}~~ *local government*
14 which is a commercial bank authorized to exercise trust powers;

15 ~~{3-}~~ 4. The market value of the collateral is determined not less
16 frequently than weekly and, if the ratio required by subsection 1 is
17 not met, sufficient additional collateral is deposited with the agent of
18 the ~~{municipality}~~ *local government* to meet that ratio within 2
19 business days after the determination; and

20 ~~{4-}~~ 5. The party with whom the investment contract is
21 executed is a commercial bank, or that party or a guarantor of the
22 performance of that party is:

23 (a) An insurance company which has a rating on its ability to
24 pay claims of not less than "Aa2" by Moody's Investors Service,
25 Inc., or "AA" by Standard and Poor's Ratings Services, or their
26 equivalent; or

27 (b) An entity which has a credit rating on its outstanding long-
28 term debt of not less than "A2" by Moody's Investors Service, Inc.,
29 or "A" by Standard and Poor's Ratings Services, or their equivalent.

30 **Sec. 3.** NRS 355.178 is hereby amended to read as follows:

31 355.178 1. The governing body of a city whose population is
32 150,000 or more or a county whose population is 100,000 or more
33 may lend securities from its investment portfolio if:

34 (a) The investment portfolio has a value of at least
35 \$100,000,000;

36 (b) The treasurer of the city or county:

37 (1) Establishes a policy for investment that includes
38 provisions which set forth the procedures to be used to lend
39 securities pursuant to this section; and

40 (2) Submits the policy established pursuant to subparagraph
41 (1) to the city or county manager and prepares and submits to the
42 city or county manager a monthly report that sets forth the securities
43 that have been lent pursuant to this section and any other
44 information relating thereto, including, without limitation, the terms
45 of each agreement for the lending of those securities; and



(c) The governing body receives collateral from the borrower in the form of cash or marketable securities that are:

(1) Authorized pursuant to NRS 355.170, if the collateral is in the form of marketable securities; and

(2) At least 102 percent of the value of the securities borrowed.

2. The governing body of a city or consolidated municipality whose population is ~~60,000~~ 25,000 or more but less than 150,000 may lend securities from its investment portfolio if:

(a) The investment portfolio has a value of at least \$50,000,000;

(b) The governing body is currently authorized to lend securities pursuant to subsection 5;

(c) The treasurer of the city or consolidated municipality:

(1) Establishes a policy for investment that includes provisions which set forth the procedures to be used to lend securities pursuant to this section; and

(2) Submits the policy established pursuant to subparagraph (1) to the manager of the city, ~~or~~ consolidated municipality *or other local government* and prepares and submits to the manager of the city, ~~or~~ consolidated municipality *or other local government* a monthly report that sets forth the securities that have been lent pursuant to this section and any other information relating thereto, including, without limitation, the terms of each agreement for the lending of those securities; and

(d) The governing body receives collateral from the borrower in the form of cash or marketable securities that are:

(1) Authorized pursuant to NRS 355.170, if the collateral is in the form of marketable securities; and

(2) At least 102 percent of the value of the securities borrowed.

3. The governing body of a city, county or consolidated municipality may enter into such contracts as are necessary to extend and manage loans pursuant to this section.

4. The total of investments made by a particular city, county or consolidated municipality with collateral received pursuant to subsection 1 or 2 must have an average weighted maturity of not more than 90 days.

5. The governing body of a city or consolidated municipality whose population is ~~60,000~~ 25,000 or more but less than 150,000 shall not lend securities from its investment portfolio unless it has been authorized to do so by the State Board of Finance. The State Board of Finance shall adopt regulations that establish minimum standards for granting authorization pursuant to this subsection. Such an authorization is valid for 2 years and may be renewed by the State Board of Finance for additional 2-year periods.



6. As used in this section, "average weighted maturity" means the average length of time until the securities in which a particular city, county or consolidated municipality has invested with collateral received pursuant to subsection 1 or 2 will mature or be redeemed by their issuers, with the length of time of each individual security proportionally weighted according to the total dollar amount that the particular city, county or consolidated municipality has invested in that individual security with collateral received pursuant to subsection 1 or 2.

Sec. 4. NRS 387.516 is hereby amended to read as follows:

387.516 1. The board of trustees of a school district may apply to the State Treasurer for a guarantee agreement whereby money in the State Permanent School Fund is used to guarantee the payment of the debt service on bonds that the school district will issue. The amount of the guarantee for bonds of each school district outstanding at any one time must not exceed ~~[\$25,000,000.]~~ **\$40,000,000.**

2. The application must be on a form prescribed by the State Treasurer. The State Treasurer shall develop the form in consultation with the Executive Director.

3. Medium-term obligations entered into pursuant to the provisions of NRS 350.087 to 350.095, inclusive, are not eligible for guarantee pursuant to NRS 387.513 to 387.528, inclusive.

4. Upon receipt of an application for a guarantee agreement from a school district, the State Treasurer shall provide a copy of the application and any supporting documentation to the Executive Director. As soon as practicable after receipt of a copy of an application, the Executive Director shall investigate the ability of the school district to make timely payments on the debt service of the bonds for which the guarantee is requested. The Executive Director shall submit a written report of his investigation to the State Board of Finance indicating his opinion as to whether the school district has the ability to make timely payments on the debt service of the bonds.

Sec. 5. This act becomes effective on July 1, 2007.

