

STATE BOARD OF FINANCE
August 8, 2017 – 8:30 AM
Summary Minutes

Location:

Via videoconference at the following locations:

Old Assembly Chambers
Capitol Building, Second Floor
101 N. Carson Street
Carson City, NV 89701

Grant Sawyer State Office Building
555 E. Washington Avenue, Suite 5100
Las Vegas, NV 89101

Governor Sandoval called the meeting to order at 8:31 a.m.

Board members present:

Governor Brian Sandoval – Carson City
Treasurer Dan Schwartz – Las Vegas
Controller Ron Knecht – Carson City
Dave Funk – Carson City
Steve Martin – Las Vegas

Others present:

Tara Hagan – Nevada Treasurer’s Office
Budd Milazzo – Nevada Treasurer’s Office
Kimberly Arnett – Nevada Treasurer’s Office
CJ Manthe – Nevada Housing Division
Michael Holliday – Nevada Housing Division
Fred Eoff – Public Financial Management, Inc.
Daralyn Dobson – Nevada Division of Environmental Protection
Jason Cooper – Nevada Division of Environmental Protection
Liz Kingsland - Nevada Division of State Lands
Eric Johnson – Nevada Division of State Parks
Jen Idema – Parks
Dominique Etchegoyen – Parks
Eric Novak – Praxis
Lorri Murphy – Ovation
Alan Molasky – Ovation
Bruce Breslow – Business & Industry
Terry Reynolds – Business & Industry
Tawny Polito – Business & Industry
Liz Obrian – Wildlife
Jack Robb – Wildlife
Ted Kniesche – Fulcrum Bioenergy
Eric Pryor – Fulcrum Bioenergy
Jeanne Benedetti – Fulcrum Bioenergy
Jim Macias – Fulcrum Bioenergy
Joria Wang – Orrick
Zach Solomon – Morgan Stanley

Jim Blandford – Baird & Co.
Ryan Warburton – Gilmore & Bell
Jacob Carlton – Gilmore & Bell
Dennis Belcourt – Office of the Attorney General
Dane Hillyard – Greenstreet Companies
John Peterson – JNA Consulting Group

Agenda Item 1 – Public Comment.

There was no public comment in Carson City or Las Vegas.

Agenda Item 2 – Approval of the Board of Finance minutes from the meeting held on June 13, 2017.

Dave Funk motioned to approve Agenda Item 2. Steve Martin seconded the motion. Motion passed unanimously.

Agenda Item 3 – Discussion and possible action on the approval of the bonding program to be included in the fall 2017 issuance of general obligation and refunding bonds by the State of Nevada.

- 1) Department of Administration - Capital Improvement Projects (~\$92 million)
 - a) 2015 CIP Tranche 3 (~\$13 million)
 - b) 2017 CIP Tranche 1 (~\$65 million)
 - c) 2017 CIP Reno DMV Building (~\$13.5 million)
 - d) Refundings if identified
- 2) Department of Conservation and Natural Resources (~\$92 million)
 - a) Q1 Program (~\$4.6 million)
 - i) Parks (~\$1.7 million)
 - ii) Wildlife (~\$1.9 million)
 - iii) State Lands (~\$1 million)
 - b) Drinking Water State Revolving Fund-Federal Matching Bonds (~\$6.6 million)
 - c) Clean Water State Revolving Fund-Federal Matching Bonds (~\$4 million)
 - d) Clean Water State Revolving Fund-Leveraged Bonds (~\$70 million)
 - e) Tahoe Environmental Improvement (~\$5 million)
 - f) Capital Improvement Water Grants (~\$1.0 million)
 - g) Refundings if identified
- 3) Municipal Bond Bank (~\$6 million)
 - a) Carson City (~\$6 million)

Lori Chatwood, with the State Treasurer’s Office, presented to the Board the proposed bonding programs to be included in the upcoming State of Nevada general obligation securities issuance. Ms. Chatwood stated that if the Board was to approve the recommended bond programs in the sale, the STO will present to the Board at the September 12, 2017, the resolutions and details that go with that sale. Ms. Chatwood explained the tentative schedule for the fall sale is approval from Board of Finance at the September 12, 2017 meeting; bond sale on October, 17, 2017; and

bond closing and receipt of proceeds on November 7, 2017. Ms. Chatwood stated that all of the bonds that the STO have proposed in the sale are within the debt capacity.

Governor Sandoval asked Ms. Chatwood if she had any concerns with the program bonding requests and Ms. Chatwood stated that she did not have any concerns. She noted that STO has worked very closely with the various agencies and has experienced great teamwork in the expenditure of prior proceeds as well as planning for the proceeds that will be issued in the future. She noted that the post-issuance compliance reporting and oversight which was established a few years ago has been successful for all parties.

Treasurer Schwartz wanted to know the state's affordability which can be issued. Ms. Chatwood stated that \$854,772,379 is the debt capacity under the constitutional debt limit and clarified that in the chart on page 2 everything listed in red has not been issued yet but what has been proposed to issue so that the money isn't spent twice.

Controller Knecht motioned to approve Agenda Item 3. David Funk seconded the motion. Motion passed unanimously.

Agenda Item 4 – Discussion and possible action on the Nevada Housing Division's request to approve the Findings of Fact pertaining to the issuance of up to \$30,000,000 of Multi-Unit Housing Revenue Bonds (Tenaya Senior Apartments), for the purpose of construction of a 272-unit affordable housing rental project in Las Vegas, Nevada. The project owner/developer will be a limited liability company, which will consist of entities owned by Ovation Development Corporation and Coordinated Living of Southern Nevada, Inc. Wells Fargo Bank; N.A. will be the equity investor limited partner. Approval of the Board of Finance is required pursuant to NRS 319.270(4).

CJ Manthe requested approval of the Findings of Facts pertaining to the issuance of up to \$30,000,000 of Nevada Housing Division multi-unit housing revenue bonds for the Tenaya Senior Apartments. The bonds will be used to provide financing for the construction of a 272-unit affordable housing apartment complex located in Las Vegas. The rental housing will serve low income seniors and is located immediately south of Craig Road on Tenaya Way. The proposed construction will provide high quality energy efficient affordable rental housing, for seniors that are at or below 60% of area median income. As a benchmark, a household of two would be at or below \$30,000 annual income to qualify for residency at the complex. The proposed apartment community will have a full complement of amenities, including community common space for recreation, meetings and social gatherings. Ms. Manthe explained that the Housing Division will be the conduit issuer on this project and that there will not be any liability for the repayment of the bonds to the State of Nevada nor the Housing Division. The bonds will be paid for by the developer through the project revenues. The project is being financed by Citi Bank and will be structured in two phases, Construction Phase and Permanent Phase. Wells Fargo Bank will act as a limited partner and will provide an equity investment of \$14,300,000.

Ms. Manthe noted that the Housing Division in conjunction with the Board of Finance has reason to celebrate the overall projects that have been brought forth and approved by the Board over the past three years. The Board has approved 15 separate transactions which have resulted in 3,243 units of which ~1,800 are new units. Ms. Manthe thanked the Board for its review and approval of these important projects over the past three years which have provided many Nevadans with affordable housing.

Governor Sandoval asked Ms. Manthe if she knew how many units it would take to cure the shortage of units needed. Ms. Manthe stated that one of their housing studies estimated that in Nevada 187,600 households in the Las Vegas area are considered cost burdened which means they are paying more than 30% of their income towards rent. She noted that based on this information the Division estimates that there would need to be hundreds of thousands of units created in order to meet 100% of the needs. Governor Sandoval asked Ms. Manthe how many projects they are currently planning to build. Michael Holliday, with the Housing Division, stated that there are currently 1,500 units planning to be built and that it has two more projects it anticipates to bring forth to the Board in the next several months. Governor Sandoval questioned what some of the barriers are to building more units. Mr. Holliday indicated that the cost of land and cost of labor are currently two significant barriers in Nevada.

David Funk asked if the bulk of the 1,500 units are in the metropolitan areas or if any are in the rural part of the state. Mr. Holliday stated that because these are bigger projects they will all be built in the urban areas.

Controller Knecht asked that since there are a substantial number of vacant abandoned properties in Las Vegas and Clark County would it be possible to find a way to renovate these properties and then make them available to low income families. Ms. Manthe stated that the Housing Division doesn't really focus on that type of development but all of their financing programs and funding program encourage both new construction as well as preservation. She stated that the funding does allow them to acquire and rehabilitate existing developments but they have limited resources in which to identify these types of properties. Controller Knecht questioned if the Division is doing anything to find this type of inventory. Ms. Manthe also stated that they have an economist on their staff and as part of their annual affordable housing survey they could add trying to find abandoned structures to preserve.

Controller Knecht asked if this project and other projects which have been brought to the Board, are subject to prevailing wage and project labor agreement restrictions. Mr. Holliday stated that would be dependent upon the mix of federal funds; he noted that he doesn't believe they have brought a project to the Board in the last three years that was subject to prevailing wage.

David Funk, for the record, stated that on Exhibit B under Interest Payments it should be corrected after "Permanent Phase which is estimated to occur 18" to state "18 Months".

Governor Sandoval asked Alan Molasky, with Ovation who is the builder, when this project will break ground. Mr. Molasky stated they should break ground in six months.

David Funk motioned to approve Agenda Item 4. Steve Martin seconded the motion. Motion passed unanimously.

Agenda Item 5 – Discussion and possible action on the request by the Director of the State of Nevada Department of Business and Industry to approve the Findings of Fact pertaining to the issuance of industrial development revenue bonds in an amount not to exceed \$150,000,000 for the purpose of assisting in the financing of a bio refinery facility to be used for the disposal of solid waste and conversion to renewable fuel products to be located on a 19.4-acre site in the Tahoe-Reno Industrial Center in Storey County, Nevada. The project will be owned by Fulcrum Sierra BioFuels, LLC, and operated by Fulcrum BioEnergy, Inc. Approval of the Board of Finance is required pursuant to NRS 349.580(2).

Bruce Breslow, with the Department of Business and Industry, requested approval of the Findings of Fact pertaining to the issuance of industrial development revenue bonds in an amount not to exceed \$150,000,000 for the purpose of assisting in the financing of a bio refinery facility to be used for the disposal of solid waste and conversion to renewable fuel products to be located on a 19.4-acre site in the Tahoe-Reno Industrial Center in Storey County, Nevada. The project will be owned by Fulcrum Sierra BioFuels, LLC and operated by Fulcrum BioEnergy, Inc. Mr. Breslow stated that Fulcrum has already built a feed stock facility off of Interstate 80 (near the Tahoe-Reno Industrial Center) to take garbage to separate and sort it to keep it from going into the landfill. The project before the Board is phase two, which is a plant that will turn 200,000 tons of waste into 11,000,000 gallons of high quality, synthetic renewable jet and diesel fuel every year. The fuel produced, has been tested, certified and approved for use in commercial vehicles, military and commercial aviation use worldwide. Mr. Breslow stated that the salaries on this project are higher than any other projects he has seen. He explained that managers and supervisors are ranging up to \$64 an hour; up to \$32 an hour for operators; \$29 an hour for maintenance crews; and more than \$17 an hour for equipment operators. Mr. Breslow stated the project will be built at the Tahoe-Reno Industrial Center which is a short distance from the feed stock facility.

David Robertson, financial advisor on the project, stated that the cost will be approximately \$280,000,000 to fund the construction of the feed stock and bio refinery facility. The construction will start in September 2017 and is estimated to be completed by December of 2019. He provided the job creation estimates on the project and noted that there is an estimated budget of over \$6,000,000 annual salary for 130 continual, permanent jobs for the area. There will be approximately 500 construction jobs which support over 1000 indirect jobs. Mr. Robertson stated that tax estimates suggest that property taxes could be \$13,000,000 over a ten

year tax abatement period with sales taxes of \$11,000,000 generated during the construction period. Regarding the security of the bonds, Mr. Robertson stated that this will be 100% project financing. He stated that there will be no guarantees and no obligation to the state of Nevada. The state is facilitating the issuance of the bonds but there will be no obligation now or in the future for the state.

Mr. James Macias with Fulcrum noted that the firm has worked with its largest partners such as BP, the military and various airlines and spent over \$100 million to get this process ready for a commercial application. He noted that the firm does have a demonstration process plant in South Carolina which has allowed it to run this process from A to Z and perfect it over the past two years. He noted that there are many factors that make this project attractive to bond investors which include financing with 50% debt and 50% equity (over two-times debt coverage) and securing a private insurance policy for 100% of the project costs.

Controller Knecht asked Mr. Robertson if the construction costs were \$280,000,000. Mr. Robertson stated yes, that is the construction costs. Controller Knecht questioned why there is mention of \$347,000,000 costs listed in their report and asked for clarification on the two numbers. Mr. Robertson stated the \$280,000,000 is the actual cost of construction and the balance is the financing cost, calculated interest, debt service reserve and cost of issuance.

Controller Knecht asked since the Department of Defense (DOD) and Engineering Procurement Construction contractor (EPC) have contributed financially to the project what type of rights or claims do they have on the project. Jim Macias, with Fulcrum, stated there are no rights or ties on the project and explained that it is equity-like investment in the project. He noted that the DOD doesn't make equity investments but rather provides grants and it's an attractive investment for them. Mr. Macias noted that the EPC has the right with the last \$15 million to receive a cash lump sum or equity rights. Regarding the financial structure, Controller Knecht wanted to know if the various projects are turnkey projects where they're committed to a certain date of completion. Mr. Macias stated that yes that is the case. It was their process and design but it has gone through so much testing that they were able to get a general contractor to come in and design it as a turnkey. Controller Knecht inquired about any penalties for the contractor who may not meet the required date(s). Mr. Macias noted that the contracts have day per day penalties tied to these dates.

Controller Knecht asked if they are assuming that the interest rates will go up during the next three years. Mr. Breslow stated that once the bonds are sold it's a fixed rate for the life of the bonds.

Controller Knecht noted that although the State has limited risk associated with this project, he questioned that if the project is predicated on \$70 per barrel for crude oil and with the price closer to \$50 per barrel questioned how this affects the overall financials if this price per barrel

stayed around \$50 per barrel over the next 10 years. Mr. Macias noted that \$70 is a forecast over the life of the project. He stated that a lower price per barrel would allow them to maintain a level of sufficient cash and a return for equity investors.

Treasurer Schwartz asked Fulcrum if this is the first such project for the firm. Mr. Macias stated that yes it is the first commercial plant. Treasurer Schwartz asked if the fuel is gas or liquid. Mr. Macias stated that it is liquid fuel. Treasurer Schwartz asked what could go wrong with the project. Mr. Macias stated that they have worked really hard to de-risk the project from feedstock risk, price risk of feedstock, to operating costs, technology performance and financing. He stated that this didn't mean that something else couldn't go wrong but that the firm has a good contractor and a good design. He explained that as a hands owner, they review and approve everything their contractor does and inspects all the equipment to help ensure that the project is executed properly.

Controller Knecht motioned to approve Agenda Item 5. David Funk seconded the motion. Motion passed unanimously.

Agenda Item 6 – Discussion and possible action on the request by the Director of the State of Nevada Department of Business and Industry to approve the Findings of Fact pertaining to the issuance of charter school revenue bonds in an amount not to exceed \$32,190,000 for the purpose of assisting in financing the acquisition of charter school facilities and the related land and improvements to be owned and operated by Doral Academy of Nevada for its educational purposes to be comprised of (i) an approximately 58,029 square-foot school building located on an approximately 4.24-acre site located at 9025 West Cactus Avenue and (ii) an approximately 62,229 square-foot school building located on an approximately 3.83-acre site located at 9625 West Saddle Avenue, each located in Las Vegas in Clark County, Nevada. Approval of the Board of Finance is required pursuant to NRS 388A.650.

Bruce Breslow, with the Department of Business and Industry, requested approval of the Findings of Fact pertaining to the issuance of charter school revenue bonds in an amount not to exceed \$32,190,000 for the purpose of assisting in financing the acquisition of charter school facilities and the related land and improvements to be owned and operated by Doral Academy of Nevada for its educational purposes. Mr. Breslow stated that they are asking for approval from the Board to purchase the two buildings, located on the Cactus campus and Saddle campus in Las Vegas, Nevada, to help save the cost of leasing the buildings currently.

Governor Sandoval asked if there was any intent to open a campus in Northern Nevada. Mr. Robertson stated that there is a campus opening this year in Northern Nevada and it's located in the Southwest part of town in Reno.

Treasurer Schwartz asked if the bonds on this project will be rated. Jim Blandford, with Baird and Co., stated that yes and they've received a rating of a BB + on the bonds. Treasurer Schwartz

asked if they think there are enough qualified buyers to complete the financing. Mr. Blandford stated that they have underwritten about \$2.8 billion of charter school bonds in the last 15 years and there is more than enough demand to place these bonds.

Controller Knecht motioned to approve Agenda Item 6. David Funk seconded the motion. Motion passed unanimously.

Agenda Item 7 – Board members’ comments including discussion of future agenda items and status of past, present and future projects or other matters within the Board’s jurisdiction.

Member David Funk stated his official term on the Board will expire in October 2016. His last Board meeting will be on via teleconference for the September 2016 meeting. Mr. Funk stated that it has been an honor and a privilege to serve on this Board through three Governors’ since 2001 and he explained that it is time to give someone else in our community the opportunity to serve and be a part of this incredible committee.

Governor Sandoval, Controller Knecht and Treasurer Schwartz thanked Mr. Funk, on behalf of the state of Nevada for his service and stated that it has been an honor and privilege to work with him on the Board of Finance.

Agenda Item 8 – Public Comment

There were no comments in Carson City or Las Vegas.

David Funk motioned to adjourn the meeting. Controller Knecht seconded the motion. Motion passed unanimously.

Meeting was adjourned at 10:15 a.m.