

## DEBT MANAGEMENT POLICY

### SECTION I DEBT MANAGEMENT POLICY

#### NRS 350.013 (1) (c)

Listed below are excerpts from Nevada Law which requires local governments to submit a debt management policy:

***350.013 Municipalities to submit annually statement of current and contemplated general obligation debt and special elective taxes, statement of debt management policy, plan for capital improvement or alternate statement and certain information regarding chief financial officer; update of information; exceptions.***

*1. Except as otherwise provided in this section, on or before August 1 of each year, the governing body of a municipality which proposes to issue or has outstanding any general obligation debt, other general obligations or special obligations, or which levies or proposes to levy any special elective tax, shall submit to the department of taxation and the commission:*

- (c) A written statement of the debt management policy of the municipality; which must include, without limitation:
  - 1) A discussion of its ability to afford existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt;
  - 2) A discussion of its capacity to incur authorized and proposed future general obligation debt without exceeding the applicable debt limit;
  - 3) A discussion of its general obligation debt that is payable from property taxes per capita as compared with such debt of other municipalities in this state;
  - 4) A discussion of its general obligation debt that is payable from property taxes as a percentage of assessed valuation of all taxable property within the boundaries of the municipality;
  - 5) Policy regarding the manner in which the municipality expects to sell its debt;
  - 6) A discussion of its sources of money projected to be available to pay existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt; and
  - 7) A discussion of its operational costs and revenue sources, for the ensuing 5 fiscal years associated with each project included in its plan for capital improvement submitted pursuant to paragraph (d), if those costs and revenues are expected to affect the tax rate.

This document is intended to meet the requirements of NRS 350.013 subsection 1 (c), it is not a review of the Truckee Meadows Water Authority's ("TMWA") total financial position.

## General Policy Statement

The purpose of the Truckee Meadows Water Authority's Debt Management Policy is to manage the issuance of TMWA's debt obligations and maintain the ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, facilities, and equipment that are beneficial to the residents of TMWA's service territory.

### Ability to Afford Existing, Future and Proposed General Obligation Debt

Response to NRS 350.013 (1) (c)

- (1) *A discussion of its ability to afford existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt; and*
- (6) *A discussion of its sources of money projected to be available to pay existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt.*

TMWA has authority pursuant to a cooperative agreement entered into pursuant to Nevada state statutes to issue special obligation bonds. TMWA does not have the authority to issue general obligations.

### Bonded Indebtedness

The following table illustrates the outstanding bond issues currently being supported by operational revenues.

**SPECIAL OBLIGATION BONDS AND LOANS  
SUPPORTED BY NET REVENUES  
Truckee Meadows Water Authority, Nevada  
June 30, 2008**

	Issuance Date	Original Amount	Amount Outstanding
TMWA Water Revenue (Tax Exempt) Bonds, Series 2001A	06/11/2001	\$448,810,000	\$73,600,000
TMWA Water Revenue Bonds, Series 2005A	12/01/2005	40,000,000	39,330,000
Drinking Water SRF Loan, Series 2005	11/22/2006	4,669,565	4,384,844
TMWA Water Revenue Refunding Bonds, Series 2006	06/06/2006	150,745,000	150,745,000
TMWA Water Revenue Refunding Bonds, Series 2007	01/18/2007	218,975,000	217,745,000
Total			\$485,804,844

### Bonds Are Special Obligations of the Authority

The principal of and interest on the Bonds is payable solely from and secured by an irrevocable pledge of the Net Revenues derived by TMWA from the operation of the Water System, together with certain interest income and other amounts as provided in the Bond Resolution. The Bonds constitute an irrevocable pledge of the Net Revenues and the Bond Fund and the Reserve Account established by the Bond Resolution. The Bonds do not constitute a general obligation of TMWA. Owners of the Bonds may not look to any funds or accounts of TMWA other than those specifically pledged to the payment of the Bonds. The Bonds do not constitute a debt of the City of Reno, the City of Sparks, Washoe County, or the State of Nevada. TMWA has no taxing power. Payment of the Bonds is dependent upon the generation of sufficient Net Revenues of the Water System.

The Truckee Meadows Water Authority's guidelines for the execution and management of interest rate swaps or similar products ("Swap Products") and related transactions to meet the financial and management objectives of the Authority are included as Appendix A.

## Current and Proposed Debt Service Requirements

The following table illustrates the debt service to maturity on TMWA's currently outstanding special obligation bonds, the Drinking Water State Revolving Fund (the "DWSRF") loan and the proposed bonds in the amount of \$50 million anticipated to be sold during Fiscal Year 2008-09. These bonds and loans are supported by Net Revenues. The proceeds of the proposed sale of bonds during Fiscal Year 2008-09 will enable TMWA to proceed with certain planned capital projects and convert portions of its short-term commercial paper notes to long-term debt.

**NET REVENUE SUPPORTED DEBT**  
**Currently Outstanding and Proposed Bonds and Loans**  
**Truckee Meadows Water Authority, Nevada**  
**June 30, 2008**

Fiscal Year Ending June 30,	Currently Outstanding Combined Series 2001A, Series 2005A, Series 2006, Series 2007 and 2005 DWSRF Loan.		Authorized and Proposed Bond Sales for Capital Projects		
	Principal	Interest	Principal	Interest	Total
	2009	\$9,117,511	\$22,435,239	\$0	\$877,133
2010	9,538,902	21,972,895	1,265,000	2,599,775	35,376,572
2011	10,025,500	21,462,256	1,580,000	2,528,650	35,596,406
2012	10,542,311	20,923,781	1,660,000	2,447,650	35,573,742
2013	11,094,343	20,360,252	1,745,000	2,362,525	35,562,120
2014	11,661,602	19,763,983	1,830,000	2,273,150	35,528,735
2015	12,279,096	19,129,364	1,920,000	2,179,400	35,507,860
2016	12,926,833	18,465,008	2,015,000	2,081,025	35,487,866
2017	13,604,820	17,793,731	2,120,000	1,977,650	35,496,201
2018	14,273,065	17,144,296	2,225,000	1,869,025	35,511,386
2019	14,916,577	16,496,559	2,335,000	1,755,025	35,503,161
2020	15,585,365	15,819,065	2,450,000	1,635,400	35,489,830
2021	16,284,437	15,127,009	2,575,000	1,509,775	35,496,220
2022	16,978,802	14,420,353	2,705,000	1,371,013	35,475,167
2023	17,713,471	13,682,640	2,850,000	1,218,250	35,464,361
2024	18,468,452	12,913,734	3,010,000	1,057,100	35,449,286
2025	19,268,757	12,109,998	3,175,000	887,013	35,440,767
2026	19,750,000	11,271,306	3,350,000	707,575	35,078,881
2027	20,605,000	10,381,063	3,535,000	518,238	35,039,300
2028	21,545,000	9,428,700	3,725,000	318,588	35,017,288
2029	22,510,000	8,433,169	3,930,000	108,075	34,981,244
2030	23,535,000	7,392,656	0	0	30,927,656
2031	24,600,000	6,304,769	0	0	30,904,769
2032	26,575,000	5,117,569	0	0	31,692,569
2033	27,845,000	3,822,569	0	0	31,667,569
2034	29,170,000	2,446,381	0	0	31,616,381
2035	30,595,000	986,894	0	0	31,581,894
2036	2,340,000	181,250	0	0	2,521,250
2037	2,455,000	61,375	0	0	2,516,375
	<u>\$485,804,844</u>	<u>\$365,847,862</u>	<u>\$50,000,000</u>	<u>\$32,282,033</u>	<u>\$933,934,740</u>

SOURCE: Truckee Meadows Water Authority

## **Operational Costs and Revenue Sources**

The TMWA revenues and expenses are accounted for in an Enterprise Fund. TMWA has no General Fund or any other Governmental Fund. It is anticipated that the operational costs associated with TMWA's capital improvement program will be paid from the Enterprise Fund for the next five years and beyond. The revenues that support TMWA's Enterprise Fund that are currently in place are expected to continue. It is the policy of TMWA to review water service rates and facility charges annually.

## **Debt Capacity**

Response to NRS 350.013 (1) (c):

- (2) *A discussion of its capacity to incur authorized and proposed future general obligation debt without exceeding the applicable debt limit.*

## **Introduction and Purpose**

Analysis of TMWA's debt position is important, as growth in the service territory has resulted in an increased need for capital financing. The Debt Capacity Analysis is premised on the idea that resources, as well as need, should drive TMWA's debt issuance program. Proposed long-term financings are linked with the economic, demographic and financial resources expected to be available to pay for that debt. The primary emphasis of the analysis is the impact of TMWA's projected capital financing requirements on the credit quality of its debt obligations. TMWA strives to ensure that, as it issues further debt, its credit quality and market access will not be impaired.

## **No Statutory Debt Limit**

TMWA does not have the statutory authority to issue general obligations, and, therefore, does not have a statutory debt limit.

## **General Obligation Debt Comparison**

Response to NRS 350.013 (1) (c):

- (3) *A discussion of its general obligation debt that is payable from property taxes per capita as compared with such debt of other municipalities in the state;*
- (4) *A discussion of its general obligation debt that is payable from property taxes as a percentage of assessed valuation of all taxable property within the boundaries of the municipality.*

TMWA does not have the statutory authority to issue general obligations.

## **Policy Statement for Sale of Debt**

Response to NRS 350.013 (1) (c):

*(5) Policy regarding the manner in which the municipality expects to sell its debt.*

### **Administration of Policy**

The General Manager and Chief Financial Officer are responsible for administration of TMWA's financial policies. The TMWA Board of Directors (the "Board") is responsible for the approval of any form of TMWA borrowing and the details associated therewith.

The General Manager will coordinate the size of issuance, debt structuring, repayment sources and determination of mix and method of sale, with the approval of the Board.

### **Types of Debt**

#### Special Obligation Bonds

TMWA may issue as special obligations any of the following types of securities:

1. Notes
2. Interim debentures
3. Bonds
4. Temporary bonds

Bonding should be used to finance or refinance only those capital improvements and long-term assets, or other costs directly associated with financing a project, which have been determined to be beneficial to a significant proportion of the citizens in the service territory and for which repayment sources have been identified.

Refundings – A refunding is generally the issuance of bonds the proceeds of which are used to redeem an outstanding issue. Key definitions are described as follows:

**Advance Refunding** - A method of providing for payment of debt service on a bond until the first call date or designated call date from available funds. Advance refundings are done by issuing a new bond or using available funds and investing the proceeds in an escrow account in a portfolio of U.S. government securities structured to provide enough cash flow to pay debt service on the refunded bonds.

**Current Refunding** - The proceeds of a new bond issue are used to pay off an outstanding bond issue within 90 days or less.

**Gross Savings** - Difference between debt service on refunding bonds and refunded bonds less any contribution from a reserve or debt service fund.

Present Value Savings - Present value of gross savings discounted at the refunding bond yield to the closing date plus accrued interest less any contribution from a reserve or debt service fund.

Prior to beginning a refunding bond issue TMWA will review an estimate of the savings achievable from the refunding. TMWA may also review a pro forma schedule estimating the savings assuming that the refunding is done at various points in the future.

TMWA will generally consider refunding outstanding bonds if one or more of the following conditions exist:

1. Present value savings are at least 3% of the par amount of the refunding bonds.
2. The bonds to be refunded have restrictive or outdated covenants.
3. Restructuring debt is deemed to be desirable.

TMWA may pursue a refunding not meeting the above criteria if:

1. Present value savings exceed the costs of issuing the bonds.
2. Current savings are acceptable when compared to savings that could be achieved by waiting for more favorable interest rates and/or call premiums.

## **Debt Structuring**

Maturity Structures - The term of TMWA debt issues should not extend beyond the useful life of the project or equipment financed. The repayment of principal on special obligation bonds should generally not extend beyond 30 years unless there are compelling factors which make it necessary to extend the term beyond 30 years, such as asset life, market efficiencies, and the like.

Debt issued by TMWA should generally be structured to provide for level aggregate debt service or to preserve debt capacity for expected additional bond issues. Ascending debt service should generally be avoided. Deferring the repayment of principal for reasons other than to manage the Authority's aggregate debt service should be avoided except in select instances where it may be beneficial as determined by the Authority.

Bond Insurance – Bond insurance is an insurance policy purchased by an issuer or an underwriter for either an entire issue or specific maturities, which guarantees the payment of principal and interest. When the cost of the insurance is less than the benefit (in terms of lower yields on the issuer's bonds), the higher credit rating afforded by the insurance would result in a lower net borrowing cost for an issuer.

Bond insurance can be purchased directly by TMWA prior to the bond sale (direct purchase) or at the underwriter's option and expense (bidder's option). TMWA will attempt to qualify its bond issues for insurance with bond insurance companies rated AAA by Moody's Investors Service and Standard & Poor's Corporation.

The decision to purchase insurance directly versus at the bidder's option is based, among other things, on:

- volatile markets,
- current investor demand for insured bonds of different maturities,
- level of insurance premiums, and
- the security and covenant terms required by the insurer.

When insurance is purchased directly by TMWA, the present value of the estimated debt service savings from insurance should be at least equal to or greater than the insurance premium. The insurer will usually be chosen based on an estimate of the greatest net present value insurance benefit (present value of debt service savings less insurance premium).

Reserve fund and coverage policy - A debt service reserve fund is created from the proceeds of a bond issue and/or the excess of applicable revenues to provide a ready reserve to meet current debt service payments should moneys not be available from current revenues.

Coverage is the ratio of pledged revenues to related debt service for a given year. For each bond issue the General Manager shall determine the appropriate reserve fund and coverage requirements, if any. The reserve for special obligation bonds should approximate one year of principal and interest or such other lesser amount as determined adequate by the General Manager.

#### Interest Rate Limitation

Under NRS 350.2011, the maximum rate of interest must not exceed by more than three percent for special obligations, the Index of Revenue Bonds, which was most recently published before TMWA adopts a bond resolution.

#### **Ongoing Disclosure of TMWA Financial Information Policy Statement**

TMWA will comply with SEC Rule 15c2-12 (the 'Rule') by providing the secondary market disclosure required in any case in which the Rule applies to TMWA as an obligated person as defined in the Rule ('Obligated Person').

Annual financial information disclosure required of TMWA by the Rule shall occur within a period not to exceed nine months following the close of TMWA's fiscal year or such lesser period of time as determined by the General Manager. The General Manager shall be responsible for the preparation and submission of the annual disclosures and material event notices required of the TMWA.

If required by the Rule, the General Manager shall be responsible for providing timely information regarding the occurrence of any event which might be material to a purchaser or seller of TMWA's debt instruments including, but not limited to, the following events relating to any TMWA issued securities:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities;
11. Rating changes;
12. Failure to provide annual financial information as required.

### **Method of Sale**

There are two ways bonds can be sold: competitive or negotiated sale. Competitive and negotiated sales provide for one or more pricings, depending upon market conditions or other factors. Either method can provide for changing issue size, maturity amounts, term bond features, etc. The timing of competitive and negotiated sales is generally related to the requirements of the Nevada Open Meeting Law.

With a competitive sale, any interested underwriter is invited to submit a proposal to purchase an issue of bonds. Pursuant to NRS Chapter 350, if a municipality is required to sell the bonds it issues by competitive bid, it must cause an invitation for competitive bids, or notice thereof, to be published before the date of the sale in the daily or weekly version of *The Bond Buyer*. The bonds are then awarded to the underwriter presenting the best bid according to stipulated criteria set forth in the notice of sale. The best bid is usually determined based on the lowest overall interest rate.

Negotiated Sale - A negotiated sale is a sale of securities through an exclusive arrangement between the issuer and an underwriter or underwriting syndicate. At the end of successful negotiations, the issue is awarded to the underwriters.

Selection of an underwriter will be determined based upon criteria contained in NRS 350.185. TMWA reserves the right to consider other criteria that might be deemed pertinent.

Procedure for the Request for Proposal for Underwriting Services – If a negotiated sale is deemed appropriate and permitted pursuant to State statute, TMWA will follow the procedures in NRS 350.175, and as set forth below.

### **Underwriter Selection for Negotiated Sale**

1. TMWA will publish a notice of request for proposals in *The Bond Buyer* or some other publication, which ensures that reasonable number of underwriters is notified, if required by state statute.
2. The Board will approve the notice of the request for proposals, if required by state

- statute. The book-running senior manager and other members of the underwriting syndicate will be designated by the General Manager, and ratified by the Board. It is TMWA's intent, once a team is established, to provide equal opportunity for the position of book-running senior manager. The General Manager will rotate the book-running senior manager on a deal by deal basis (i.e., when more than one issue is being sold for the same project having different dated dates), to provide equal opportunity to all members of the syndicate.
3. The underwriting team should be balanced with firms having institutional, retail, and regional sales strengths. TMWA is committed to equal opportunity for qualified minority and/or woman owned firms to be included on the underwriting team.
  4. TMWA may choose to negotiate the sale of the bonds to the selected underwriter for a period not to exceed six years from the date of the selection of the underwriter. TMWA will publish a notice of request for proposals from underwriters at the end of each six-year period or sooner if TMWA deems it necessary to have a negotiated sale.
  5. TMWA's selection of an underwriter will take into consideration the criteria listed in NRS 350.185.
  6. The General Manager shall certify that the procedure for selecting a proposal for the negotiated sale pursuant to NRS 350.175 was conducted in an open and fair manner.

### **Summary of Debt Issuance Policies**

- A. Bonding should be used to finance or refinance only those capital improvements and long-term assets, or other costs directly associated with financing of a project, which has been determined to be beneficial to a significant proportion of the citizens in the service territory, and for which repayment sources have been identified.
- B. Certificates of participation/other leases should be used only when appropriate (i.e., when no other adequate means of financing is available under State law).
- C. The General Manager shall consider refunding outstanding bonds if one or more of the following conditions exist:
  - i. present value savings are at least 3%, with certain exceptions, of the par amount of the refunding bonds;
  - ii. the bonds to be refunded have restrictive or outdated covenants; or
  - iii. restructuring debt is deemed to be desirable.
- D. The General Manager shall consider purchasing bond insurance when the present value of the estimated debt service savings from insurance is equal to or greater than the insurance premium.
- E. Nevada law generally requires competitive sales of bonds. When a negotiated sale is permitted by law, it will be considered by the General Manager only under the conditions set forth herein.
- F. The General Manager shall establish a list of pre-qualified underwriters when a negotiated sale is anticipated.

- G. For negotiated sales, TMWA is committed to equal opportunity for qualified minority and/or woman owned firms to be included in the underwriting team, and equal opportunity will be provided to all members of the team, including minority and/or woman-owned firms to hold the position of book-running senior manager. The book-running senior manager and other members of the underwriting syndicate will be recommended by the General Manager and approved by the Board.

### **Operation Costs and Revenue Sources in Capital Improvement Plan**

Response to NRS 350.013 1 (c)

*(7) A discussion of its operational costs and revenue sources for the ensuing 5 fiscal years, associated with each project included in its plan for capital improvement submitted pursuant to paragraph (d), if those costs and revenues are expected to affect the property tax rate.*

TMWA's Capital Improvements Program (the CIP") is a ten-year plan for maintaining existing infrastructure and building new facilities to meet demands from growth. It is used to link TMWA's physical development planning with fiscal planning.

TMWA's CIP includes major projects requiring the expenditure of public funds, over and above annual operating expenses, for the purchase, construction, or replacement of the physical assets of TMWA. Major capital projects are normally non-recurring (e.g., new buildings, investment in new technology, etc.).

The CIP program identifies project costs associated with the planning/design/engineering, land acquisition, and construction of new facilities and/or major remodels and maintenance projects. The CIP project submittal process also requests and evaluates information relating to any ongoing operation/maintenance costs associated with projects. (These expenses are not included in the total project cost.).

Some CIP projects reduce operations and maintenance costs. Many infrastructure maintenance projects will reduce long-term operations and maintenance costs through preventative measures that extend the useful life of TMWA's infrastructure. Certain projects in the technology/equipment categories may also reduce operating and maintenance costs by automating functions or by reducing energy costs and maintenance contracts on obsolete equipment.

Project evaluation by TMWA Staff includes consideration of the operations and maintenance impacts of the project. Priority is awarded to projects that reduce operating impacts on TMWA's operating budget.

New facilities can have a direct and long-lasting impact on TMWA's operating budget. New facilities call for additional operating and maintenance costs including, but not limited to, staff, computers and other equipment, utilities, and other maintenance costs. Increased expenditures must be anticipated for not only the direct costs associated with the new facility, but for any additional indirect costs that will be incurred, including administrative support, carrier services, etc. TMWA does not levy a tax rate, therefore, operations costs associated with any project in the CIP will be supported within existing revenue resources.

## **Chief Financial Officer Information**

Response to NRS 350.013 1 (e)

*A statement containing the name, title, mailing address and telephone number of the chief financial officer of the municipality.*

The TMWA financial reporting responsibilities are performed by the Chief Financial Officer.

Name: Jeffrey P. Tissier, CPA  
Title: Chief Financial Officer  
Address: Truckee Meadows Water Authority  
P.O. Box 30013  
Reno, NV 89520-3013  
Telephone: (775) 834-8048.