

Governor
Steve Sisolak

Executive Director
Asheesh S. Bhalla



Members
Treasurer Zach Conine
Director David Bobzien
Director Michael Brown
Director Terry J. Reynolds
Director Kristina Swallow

State of Nevada
STATE INFRASTRUCTURE BANK

MEMORANDUM

To: Governor Steve Sisolak; Brenda Erdoes – Director, Nevada Legislative Counsel Bureau
From: Board of Directors, Nevada State Infrastructure Bank
Date: September 29, 2022
Subject: Nevada State Infrastructure Bank – 2022 Annual Report

Pursuant to NRS 408.55087 the Board of Directors (“Board”) of the Nevada State Infrastructure Bank (“Bank”) shall file an annual report to the Governor and the Nevada Legislature concerning the Bank’s operations.

Pursuant to Senate Bill 430 from the 81st Session of the Nevada Legislature, the Bank formally commenced operations on July 1, 2021.

Board Governance

The Board held its first meeting on August 16, 2021, after the passage of Senate Bill 430 (SB430).

At the August 16, 2021 meeting, the Board elected State Treasurer Zach Conine to serve as its Chair and Director of the Nevada Department of Transportation Kristina Swallow to serve as Vice-Chair.

During this time an Executive Director had not yet been appointed by Governor Steve Sisolak. As such, the Board directed staff of the State Treasurer’s Office to assist with administrative tasks as follows: 1) conducting a search for an Executive Director candidate to recommend to the Governor, and 2) working to meet other statutory requirements to allow the Bank to provide loans and other financial assistance to qualified borrowers.

Since its first meeting the Board of Directors has also met four additional times to conduct its business. These meetings were held on January 5, 2022, April 11, 2022, June 15, 2022, and August 12, 2022.

Promulgation of Regulations

After the first meeting of the Board of Directors on August 16, 2021, the Nevada Attorney General’s Office consulted with the Bank’s acting staff and recommended that the Bank proceed through the standard NRS Chapter 233B regulatory process to establish policies for which the Bank would process, evaluate, and prioritize loans and other financial assistance through the Bank.

As a result of this guidance, and to incorporate the greatest level of feedback from stakeholders as possible, the Board approved a 30-day public comment period in compliance with NRS Chapter 233B for the following areas:

- 1) The establishment of criteria, policies, and guidelines for qualified borrowers from the Bank.

- 2) The Financing Application for Qualified Borrowers as set forth in NRS 408.55074.
- 3) A proposed capital allocation for the \$75 million afforded to the Bank through the 2021 Capital Improvement Program.

Additionally, the Board directed staff to pursue the regulatory process as needed for each of these items.

Upon receiving this Board approval, staff worked with the Legislative Counsel Bureau to draft LCB File No. R027-22, which proposed establishing procedures for the review of applications for a loan or other financial assistance submitted to the Bank, establishing considerations of the Board in reviewing applications, establishes requirements for obtaining a loan or other financial assistance from the Bank and the terms of such loans or other financial assistance, establishing requirements for work hours performed on construction projects funded in whole or in part by the Bank, and providing for other matters properly relating thereto.

On March 28, 2022, staff held the first regulation workshop on R017-22, a total of 28 individuals attended the workshop, eight individuals provided testimony, and three individuals submitted written comments on the proposed regulation.

On April 4, 2022, staff held a second regulation workshop to present a revised version of R017-22 based on feedback that was received during the first workshop. At this second regulatory workshop, 16 individuals were in attendance, five individuals provided testimony, and one individual provided written comments.

In anticipation of the Board adopting the proposed regulation on April 11, 2022, the Legislative Commission conducted an early review of the proposed regulation to ensure statutory compliance at its meeting on April 8, 2022.

The Legislative Commission then approved R017-22, and the Board subsequently approved the regulation at the regulation hearing on April 11, 2022.

The regulation for the Bank requires or provides as follows:

1. Information that must be included in an application for a loan or other financial assistance from the Bank.
2. Staff of the Bank are required to review, analyze, and obtain certain information regarding each application for a loan or other financial assistance that is submitted to the Bank.
3. Staff of the Bank are required to prepare a report containing the result of the analysis and to make a recommendation regarding whether to approve or reject the application and the amount and terms of the loan or other financial assistance to offer to the qualified borrower, if the application is approved.
4. Requires the Board, in evaluating applications, to consider whether approval of an application is consistent with the report prepared a by staff of the Bank, certain environmental standards and goals of the State and the goal of the Bank to dedicate at least 40 percent of the principal amount of the loans and other financial assistance provided by the Bank to projects located in certain areas of the State.
5. Requires the Bank to collect data regarding where qualified projects are located and the impact of those projects.
6. Prohibits the Board from approving an application by an applicant that fails to meet certain standards and authorizes the Board to reject an application by an applicant who previously defaulted on a debt.

7. Requires a qualified borrower pay an origination fee as a condition of closing on a loan or other financial assistance from the Bank.
8. Establishes provisions governing requirements that may be placed in a financing agreement by the Board to provide sufficient security to the Bank and to address the unique credit features of a qualified borrower or qualified project.
9. Establishes provisions governing how the term of a loan or other financial assistance and the interest rate on a loan or other financial assistance with the Bank will be determined.
10. The Bank may include certain provisions regarding loan repayments in a financing agreement with the Bank and authorizes a qualified borrower to make prepayments on a loan or other financial assistance subject to the payment of certain premiums.
11. A certain percentage of work hours performed on a qualified project be performed by residents of Nevada, including disadvantaged workers and apprentices, including first year apprentices.
12. Authorizes a qualified borrower who is unable to comply with these requirements to seek an exemption from the Executive Director of the Bank.
13. Creates in the Nevada State Infrastructure Bank Fund the Affordable Housing Revolving Account, the Charter School Capital Needs Revolving Account, the Federal Infrastructure Matching Account, and the State Infrastructure Bank General Account and authorize the Board of Directors of the Bank to approve an application for a loan or other financial assistance from those accounts.
14. Establish the monetary limits for loans and other financial assistance provided through these accounts.

Requires construction performed on a qualified project paid for in whole or in part from the Affordable Housing Revolving Account or the Federal Infrastructure Matching Account to be performed under a project labor agreement.

As noted above, the regulation established four separate accounts within the Nevada State Bank Fund:

- 1) The Affordable Housing Revolving Account;
- 2) The Charter School Capital Needs Revolving Account;
- 3) The Federal Infrastructure Matching Account; and
- 4) The State Infrastructure Bank General Account.

A more detailed explanation of each account is included below.

Affordable Housing Revolving Account

As part of the Bank's regulation, the Affordable Housing Revolving Account was established within the Nevada State Infrastructure Bank Fund.

Pursuant to the regulation, the Board of Directors may approve an application for a loan or other financial assistance from this account, if in addition to satisfying all other requirements of regulation and statute, the loan or other financial assistance will be used to finance the costs associated with the development, construction, repair, improvement, maintenance, or acquisition of a multi-family housing project.

In order to qualify for financing:

- At least 75% of the total project must be dedicated solely for resident housing;
- The project must meet the definition of affordable housing as defined in NRS 278.0105;
- The amount of the loan or other financial assistance must be matched by an equal or greater amount through a pension fund investor or a commingled fund of pension fund investments with a demonstrated track record of successful investment in affordable housing;

- The developer selected for the eligible project demonstrates a long-term commitment to hiring local residents and using apprentices registered with the State Apprenticeship Council; and
- The construction on the project must be performed under a project labor agreement as described in 29 U.S. Code § 158(f).

As specified in the regulation, loans or other financial assistance through the Affordable Housing Revolving Account must not exceed \$20 million per applicant unless the Board determines that lending capacity and other factors justify providing financing in a greater amount.

Additionally, all funds through the Affordable Housing Revolving Account are required to be structured as subordinate debt to pension fund investors making a significant investment in the project.

Charter School Capital Needs Revolving Account

As part of the Bank’s regulation, the Charter School Capital Needs Revolving Account was also established within the Nevada State Infrastructure Bank Fund.

Pursuant to the regulation, the Board may approve an application for a loan or other financial assistance from this account, if in addition to satisfying all other requirements of regulation and statute, the loan or other financial assistance will be used to finance or refinance outstanding debt for the costs associated with the development, construction, repair, improvement, maintenance, or acquisition of a charter school facility for a new or existing charter school.

In order to qualify for financing:

- Funds must be used to support new or existing charter schools that serve at least 60% of pupils who are considered at-risk as defined in NRS 388A.045;
- The developer selected for the eligible project demonstrates a long-term commitment to hiring local residents and using apprentices registered with the State Apprenticeship Council; and
- The applicant has provided written authorization for the project from the sponsor to of the charter school.

As specified in the regulation, loans or other financial assistance through the Charter School Capital Needs Revolving Account must not exceed \$15 million per applicant unless the Board determines that lending capacity and other factors justify providing financing in a greater amount.

Federal Infrastructure Matching Account

Additionally, as part of the Bank’s regulation, the Federal Infrastructure Matching Account was also established within the Nevada State Infrastructure Bank Fund.

Pursuant to the regulation, the Board may approve an application for a loan or other financial assistance from this account, if in addition to satisfying all other requirements of regulation and statute, the loan or other financial assistance will be used to finance:

- All or part of the eligible costs of an eligible project under NRS Chapter 408;
- The federal investment in the project exceeds the amount of the loan or other financial assistance;
- The developer selected for the eligible project demonstrates a long-term commitment to hiring local residents and using apprentices registered with the State Apprenticeship Council; and

- The construction on the project must be performed under a project labor agreement as described in 29 U.S. Code § 158(f).

As specified in the regulation, loans or other financial assistance through the Federal Infrastructure Matching Account must not exceed \$40 million per applicant unless the Board determines that lending capacity and other factors justify providing financing in a greater amount.

State Infrastructure Bank General Account

Finally, as part of the Bank's regulation, the State Infrastructure Bank General Account was also established within the Nevada State Infrastructure Bank Fund.

Pursuant to the regulation, the Board may approve an application for a loan or other financial assistance from this account, if in addition to satisfying all other requirements of regulation and statute, the loan or other financial assistance will be used to finance:

- All or part of the eligible costs of an eligible project under NRS Chapter 408;
- A project that is not eligible to receive funding from either the Affordable Housing Revolving Account, the Charter School Capital Needs Revolving Account, or the Federal Infrastructure Matching Account; and
- The developer of an eligible project that demonstrates a long-term commitment to hiring local residents and using apprentices registered with the State Apprenticeship Council.

As specified in the regulation, loans or other financial assistance through the Federal Infrastructure Matching Account must not exceed \$40 million per applicant unless the Board determines that lending capacity and other factors justify providing financing in a greater amount.

Bond Issuance to Capitalize the Nevada State Infrastructure Bank

Through the 2021 Capital Improvement Program set forth in Assembly Bill 492, the Legislature authorized \$75 million in State general obligation bonds to be used to capitalize the Bank to provide loans and other financial assistance to qualified borrowers.

On March 8, 2022, the State Board of Finance approved the 2022 State Infrastructure Bank Bond Resolution, which authorized the issuance and sale of the State of Nevada, General Obligation (Limited Tax) Taxable State Infrastructure Bank Bonds, Series 2022A and the State of Nevada, General Obligation (Limited Tax) Taxable State Infrastructure Bank Bonds, Series 2022B (Social Bonds), in the combined maximum aggregate principal amount not to exceed \$75,000,000.

Upon receiving approval from the State Board of Finance and once the regulation for the Bank were fully promulgated, the State Treasurer's Office completed the sale of these general obligation bonds on April 27, 2022. The bond sale was finalized on May 10, 2022.

As part of this bond sale, the State of Nevada had its highest credit ratings in history from Fitch Ratings, Moody's Investor Services, and S&P Global Ratings, as all three major rating agencies have reaffirmed Nevada's "Stable Outlook," which is the direct result of responsible fiscal management during the COVID-19 pandemic coupled with the State's strong economic recovery.

Nevada’s ratings for its 2022 issuance of general obligation limited tax bonds for the Bank were as follows:

- Fitch Ratings: AA+, Outlook Stable
- S&P Global Ratings: AA+, Outlook Stable
- Moody’s Investor Services: AA1, Outlook Stable

The high credit ratings assigned by the major rating agencies allowed the State of Nevada to finance priority infrastructure projects through the Bank at low market rates in a rising interest rate and high inflation rate environment.

The bond sale also marked the first time the State of Nevada has ever issued social bonds, as the Infrastructure Bank seeks to make historic investments in affordable housing and public charter schools using responsible labor and environmental practices.

As part of the bond sale, the State issued two series of general obligation bonds:

1) Series 2022A: \$40 million Aggregate Par - Taxable State Infrastructure Bank Bonds:

This \$40 million will finance qualified infrastructure projects through the State Infrastructure Bank in the form of revolving low-interest loans.

Proceeds from this sale will be used to support a Federal Infrastructure Matching Account, helping the State leverage hundreds of millions of dollars from the Infrastructure Investment and Jobs Act.

2) Series 2022B: \$35 million Aggregate Par – Taxable State Infrastructure Bank Social Bonds:

\$20 million of this series will be used to support affordable housing projects through the State Infrastructure Bank. Proceeds will be used to leverage an estimated 10x total capital committed with these proceeds to aid in the construction and renovation of affordable multi-family housing projects in partnership with the AFL-CIO Housing Investment Trust.

\$15 million of this series will be used to support capital financing for public charter schools through the State Infrastructure Bank. Proceeds will be used to support new and existing charter school facilities in low-income communities.

The Series 2022A (Taxable) bonds were sold with a true interest cost (TIC) of 3.001414% and the Series 2022B (Taxable) (Social Bonds) were sold with a true interest cost (TIC) of 3.003404%.

Financing Application

As specified in NRS 408.55074, a qualified borrower who wishes to obtain a loan or other financial assistance from the Bank must apply to the Bank in a manner proscribed by the Bank.

On June 15, 2022, the Board approved the Bank’s Financing Application after receiving significant feedback from other state agencies, local governments, and outside stakeholders during the public comment period that was previously undertaken by the Bank.

On July 7, 2022, the Bank formally released its Financing Application and began accepting applications for loans and other financial assistance in the following categories:

- Up to \$40 million to support projects through an Infrastructure Matching Fund that will leverage hundreds of millions of dollars into Nevada from the Infrastructure Investment and Jobs Act;
- Up to \$20 million to support affordable housing projects in partnership with the AFL-CIO Housing Investment Trust;
- Up to \$15 million to support the development of charter schools in low-income communities.

In evaluating applications for financing, the Bank is also working to lever leverage outside capital and federal funding to help finance projects that improve quality of life, strengthen Nevada’s climate resiliency, and help to promote a strong economy for communities.

The Financing Application is currently posted on the State Treasurer’s Office website and can be accessed here:

<https://www.nevadatreasurer.gov/uploadedFiles/treasurernvgov/content/Home/Features/SIB%20FINAL%20APPLICATION.pdf>

Interest Rate Setting Methodology

Pursuant to the Bank’s regulation, the Board is responsible for establishing a methodology for determining the interest rate on a loan or other financial assistance provided by the Bank.

This interest rate methodology is required to establish an interest benchmark based on the Municipal Market Data Index published by Refinitiv and other nationally recognized benchmarks.

The Board of Directors is also provided with the ability to determine interest rate adjustments based upon various factors set forth in the regulation.

On August 12, 2022, the Board of Directors approved its Interest Rate Setting Methodology. A copy of this methodology is included as Appendix A in this report.

Hiring of an Executive Director

On September 7, 2022, Nevada Governor Steve Sisolak announced that he had appointed Asheesh S. Bhalla to serve as the Bank’s first Executive Director.

Mr. Bhalla is a former state prosecutor and corporate defense attorney. Mr. Bhalla served as the Deputy Attorney General for the Office of the Nevada Attorney General from December 2016 until September 2022.

As Deputy Attorney General Mr. Bhalla also served as counsel to Nevada state agencies including the Cannabis Compliance Board, State Environmental Commission, Nevada Athletic Commission, and the Real Estate Commission.

Now that Mr. Bhalla has been appointed by Governor Sisolak, the Bank is now ready to begin processing applications for loans and other financial assistance from the Bank.

Budget Account Balances:

As of the September 19, 2022, the Bank's various accounts have the following amounts in realized funding available:

- The Affordable Housing Revolving Account - \$19,933,323
- The Charter School Capital Needs Revolving - \$14,951,736
- The Federal Infrastructure Matching Account - \$39,876,652

Respectfully submitted by:

Asheesh S. Bhalla
Executive Director
Nevada State Infrastructure Bank

On behalf of the Board of Directors of the Nevada State Infrastructure Bank:

Zach Conine
Nevada State Treasurer
Chair, Nevada State Infrastructure Bank