



**AGENDA
SPECIAL MEETING OF THE
BOARD OF DIRECTORS
MONDAY, APRIL 29, 2023 - 9:00 AM
1391 Engineer Street, Vista, CA 92081
Phone: (760) 597-3100 www.vidwater.org**

NOTICE FOR PARTICIPATION

In compliance with the Americans with Disabilities Act, if special assistance is needed to participate in the Board meeting telephonically, please contact the Board Secretary during regular business hours at (760) 597-3128. Notification received 48 hours before the meeting will assist Vista Irrigation District in making reasonable accommodations.

The public may participate in this meeting in-person and by teleconference. To join this meeting via telephone, please dial (877) 873-8018; the Pass Code is 474698#.

Public Participation/Comment: Members of the public can also participate in the meeting by emailing your comments on an agenda item to the Board Secretary at BoardSecretary@vidwater.org; such email should include the agenda item number in the subject line and must be received before the time the meeting commences. Members of the public, whether participating in-person or telephonically, may address the Board of Directors in real-time during the public comment period and when specific agenda items are being considered. Please announce your attendance if participating telephonically or fill out a speaker slip if participating in-person if you would like to provide real-time public comment.

1. CALL TO ORDER

2. ROLL CALL – DETERMINATION OF QUORUM

3. PLEDGE OF ALLEGIANCE

4. CONSIDER APPROVAL OF AGENDA

In the case of an emergency, items may be added to the Agenda by a majority vote of the Board of Directors. An emergency is defined as a work stoppage, a crippling disaster, or other activity that severely imperils public health, safety, or both. Also, items that arise after the posting of the Agenda may be added by a 2/3 vote of the Board. Items on the agenda may be taken out of sequential order as their priority is determined by the Board of Directors. The Board may take action on any item appearing on the agenda.

5. ORAL COMMUNICATIONS

Members of the public may address the Board on items not appearing on the posted agenda, which are within the subject matter jurisdiction of the Board. Speakers are asked to limit their comments to five (5) minutes; the total time allowable for all public comment on items not appearing on the agenda at any one meeting may be limited. Comments on items listed on the agenda will be taken before or during discussion of the agenda item. Members of the public desiring to address the Board are asked to complete a speaker's slip available on the table near the entrance of the Boardroom and present it to the Board Secretary prior to the meeting.

6. FINANCING CAPITAL PROJECTS

Recommendation: Receive informational presentation on financing capital projects.

7. COMMENTS BY DIRECTORS

This item is placed on the agenda to enable individual Board members to convey information to the Board and the public not requiring discussion or action.

8. COMMENTS BY GENERAL MANAGER

Informational report by the General Manager on items not requiring discussion or action.

9. ADJOURNMENT

- *The agenda package and materials related to an agenda item submitted after the packet's distribution to the Board are available for public review in the lobby of the District office during normal business hours.*
- *Agendas and minutes are available at www.vidwater.org.*
- *VID Board meetings are generally held on the first and third Wednesday of each month.*

AFFIDAVIT OF POSTING

I, Ranae Ogilvie, Board Secretary of the Vista Irrigation District, hereby certify that I posted a copy of the foregoing agenda outside the lobby of the District office at 1391 Engineer Street, Vista, California at least 24 hours prior to the meeting, in accordance with Govt. Code Sec. 54956.

Date: April 23, 2024



Ranae Ogilvie, Board Secretary



STAFF REPORT

Agenda Item: 6

Board Meeting Date: April 29, 2024
Prepared By: Shallako Goodrick
Approved By: Brett Hodgkiss

SUBJECT: FINANCING CAPITAL PROJECTS

RECOMMENDATION: Receive informational presentation on financing capital projects.

PRIOR BOARD ACTION: At its November 1, 2023 meeting, the Board authorized the General Manager to enter into an agreement with NHA Advisors to provide municipal financial advisor services in an amount not to exceed \$100,000.

FISCAL IMPACT: None.

SUMMARY: The District has no debt and has not financed new capital projects since the 1980's. With a number of large capital projects on the horizon that will need to be funded through sources other than pay-go, the District entered into an agreement with NHA Advisors (NHA) for municipal financial advisor services. NHA will be assisting the District with evaluating financing options, debt management, long-term strategic financial planning, credit rating strategies and policy development, and alternative financing instruments. Additionally, NHA will be educating the Board and staff on all aspects of the financing process.

Staff has requested that NHA make a presentation to the Board regarding financing capital projects. Topics to be discussed will include project timing constraints and funding timelines; funding sources and considerations and timing for each; and an overview of the bond issuance processing, including legal covenants, rating considerations and other financing components. This is an interactive presentation so the Board is encouraged to ask questions.

Craig Hill and Leslie Bloom from NHA will be making today's presentation.

ATTACHMENT: Presentation slides

FUNDING WORKSHOP

VISTA IRRIGATION DISTRICT



NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

April 29, 2024

Table of Contents

1. Introduction to NHA Advisors (Financial Advisors to VID)
2. Project Cash Flow Considerations
3. Funding Sources Overview
4. Debt Covenants and Coverage
5. Preparing for a Financing

Introduction to NHA Advisors Role

NHA assists public agencies statewide with funding large-scale infrastructure projects. Examples of our water and wastewater projects include funding for:

- Treatment Facility upgrades
- Tertiary treatment projects for direct non-potable reuse
- Groundwater recharge projects for potable reuse
- Water main/Sewer collection system expansion and replacement

NHA's Role in Helping Vista Irrigation District

Develop a financing plan for the Flume Project



Present financing plan options to the District



Execute upon the District's selected financing plan

Recent Large-Scale Utility Capital Funding Plans

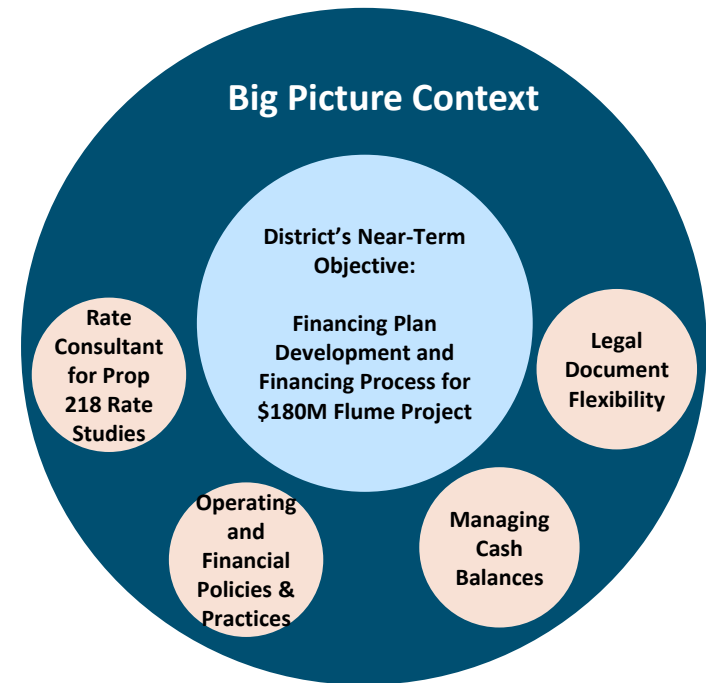
Oxnard	• \$100M Water
San Buenaventura	• \$450M Water & Wastewater
PVWMA	• \$160M Water
Palmdale Water District	• \$300M Water
Hayward	• \$520M Wastewater
BBARWA	• \$85M Water
NORS	• \$190M Wastewater



PROJECT CASHFLOW CONSIDERATIONS

Vista Irrigation District – Key Objectives

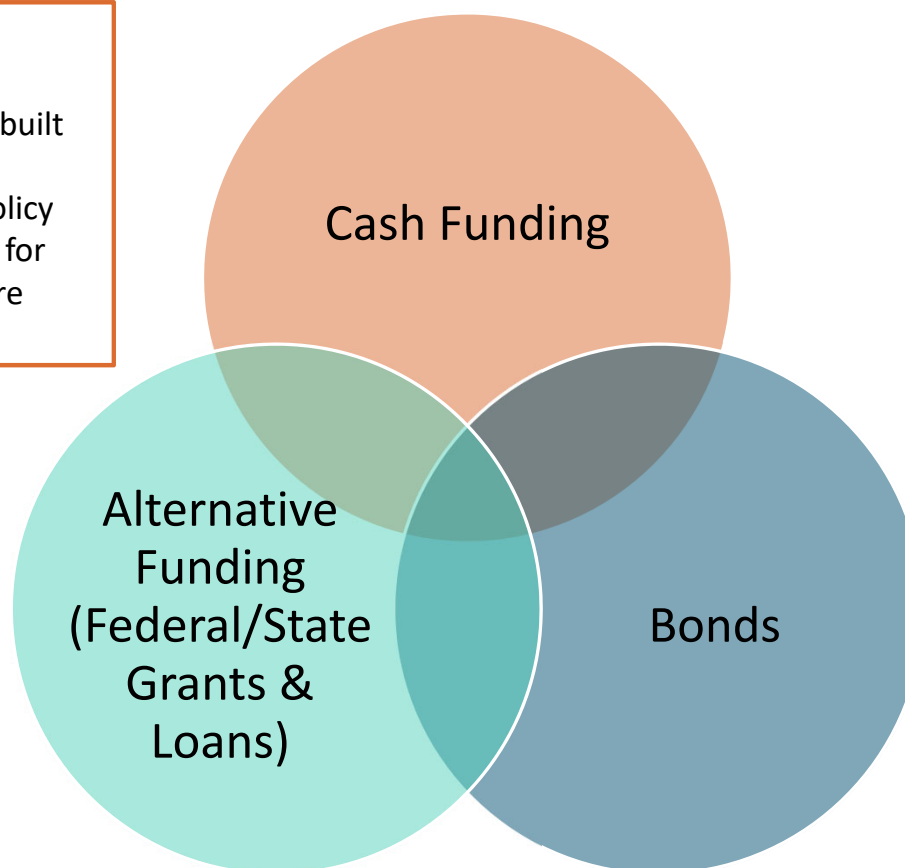
- ▶ **Near-Term Objective:** Determine funding options minimizing ratepayers
 - ▶ Options include bond financing, rate revenues, grants, Federal WIFIA Loan, California SRF, etc.)
- ▶ **Long-Term Opportunities:**
 - ▶ Strategic water rate planning (Rate Consultant)
 - ▶ Operational and financial policy adoption
 - ▶ Active cashflow management during construction
 - ▶ Comprehensive financing strategy and legal documentation



Funding Alternatives

- ❖ “Pay-As-You-Go”
- ❖ Often used to fund small and recurring projects, or projects built slowly over time
- ❖ Generational equity may be policy concern (ratepayers today pay for improvements benefiting future ratepayers)

- ❖ Below-market-rate/grant funding source
- ❖ Federal/State money requires compliance with Federal/State materials sourcing & prevailing wage requirements
- ❖ Timing of funds uncertain



- ❖ Most accessible source of outside funding (capital markets)
- ❖ Higher cost of borrowing than State/Federal programs
- ❖ Timing generally 3-4 months to deliver funding



FUNDING SOURCES OVERVIEW

Key Federal Loan Programs

▶ WIFIA

- ▶ Authorized in 2014, the Water Infrastructure Finance and Innovation Act ("WIFIA") is administered by the United States EPA
- ▶ Provides a flexible funding source to state and local government issuers
- ▶ Allows borrowers to secure project financing at a cost similar to the federal government's borrowing rate
- ▶ Selection for program funding not impacted by strong demographics in VID's user base

▶ USDA Loan

- ▶ Focus on rural utility providers & smaller service areas
- ▶ VID size of service area and strong demographics likely preclude from eligibility

WIFIA Loan Program	
Advantages	Disadvantages
Longer Loan Terms than typical in capital markets (35-year amortizations)	Maximum 49% of funding (requires local matching)
Fixed interest rate at US Treasury rate for similar term	Strongly-rated issuers (AA- and above) can often issue bonds at cheaper interest rates
Flexible amortization (wrap around shorter-term debt); Flexible prepayment options;	Taking Federal money requires compliance with Federal sourcing/prevaling wage (BABA, AIS, Davis Bacon, etc.)
Draw schedule loan – only pay for what you draw, not the full authorized amount	Lengthy application, review, and loan process (12-18 months standard)
Repayment can be deferred until after project completion (& up to 5 years after that!)	Requires investment grade credit rating
Accepting letters of interest on a rolling basis	

Key State Loan Programs

- ▶ SRF
 - ▶ Clean Water & Drinking Water State Revolving Fund ("SRF") is administered by State Water Resources Control Board
 - ▶ SRF funding has the lowest interest rate available, (50% of the state's most recent GO Bond – 1.7% currently)
 - ▶ Competitive program with emphasis on small/disadvantaged communities (VID not likely to score well in that regard)
- ▶ IBank ISRF Program
 - ▶ Provides low-cost public financing to state and local government entities
 - ▶ Charges fee of 1% of par at closing plus annual admin fee of 0.15% annually
 - ▶ Focus on small and mid-sized local governments
 - ▶ Loans range from \$1M to \$65M; typically up to \$25M
 - ▶ Quicker processing than other state programs; ~ 6-month financing process

CWSRF Loan Program	
Advantages	Disadvantages
Lowest-cost source of debt financing (1.7% currently)	Lengthy (18-24 month), competitive loan process
Repayment typically doesn't commence until 1 year after project completion	Loan terms capped at 30 years; must have level repayment structure
No credit rating required, though SRF does a thorough credit analysis/review	Restrictive debt service coverage covenant ("rolling five-year test")
	Limited flexibility on loan terms (e.g., lien status)
	Rolling applications – specific application windows

Capital Markets & Bonds

- ▶ Quickest source of funding (vs State & Federal funding) – typically ~4 months
 - ▶ Money delivered to VID at closing, VID (or Trustee) holds the money in a Project Fund
- ▶ Interest rate is a function of the size, term, credit rating, tax status
 - ▶ 4-5% range for 30-year debt currently
- ▶ Flexible structuring options – “wraparound” other funding sources, 30-year, deferred principal, capitalized interest
- ▶ Can typically be pre-paid after 10-year period
- ▶ Higher issuance costs than other funding options
 - ▶ Larger financing team & underwriting costs
- ▶ Two methods of sale: public offering & direct (private) placement

Public Offering

- Official Statement required
- Credit rating required
- Lower interest rates
- Higher transaction costs
- Longer Financing Term

Direct Placement

- No Official Statement, but some disclosure required
- No credit rating
- Higher interest rates
- Quicker financing process
- Lower transaction costs
- Shorter maturity available than public offering, resulting in higher annual payments
- Generally used for smaller loans

Benefits and Considerations



Access to upfront proceeds by pledging future net revenues

Quicker to market than State/Federal funding programs

No requirement to comply with Federal/State materials sourcing & prevailing wage

Debt covenants

Interest payments typically higher than SRF/WIFIA programs

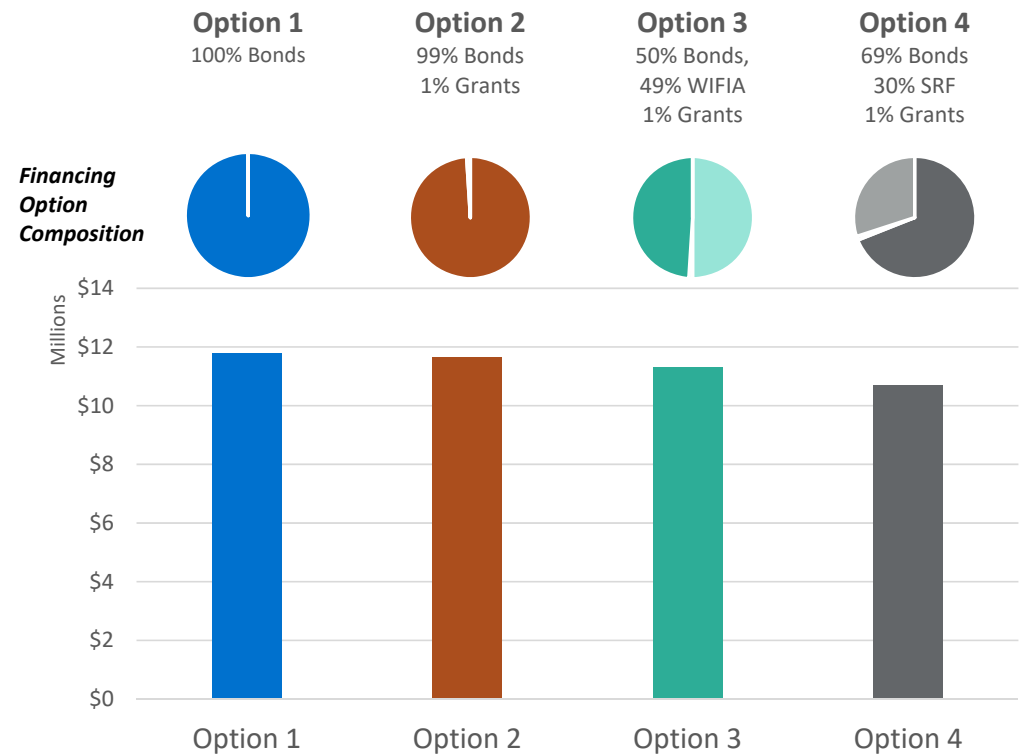
Ongoing disclosure and administration requirements

Project fund spend-down requirement (3 years)

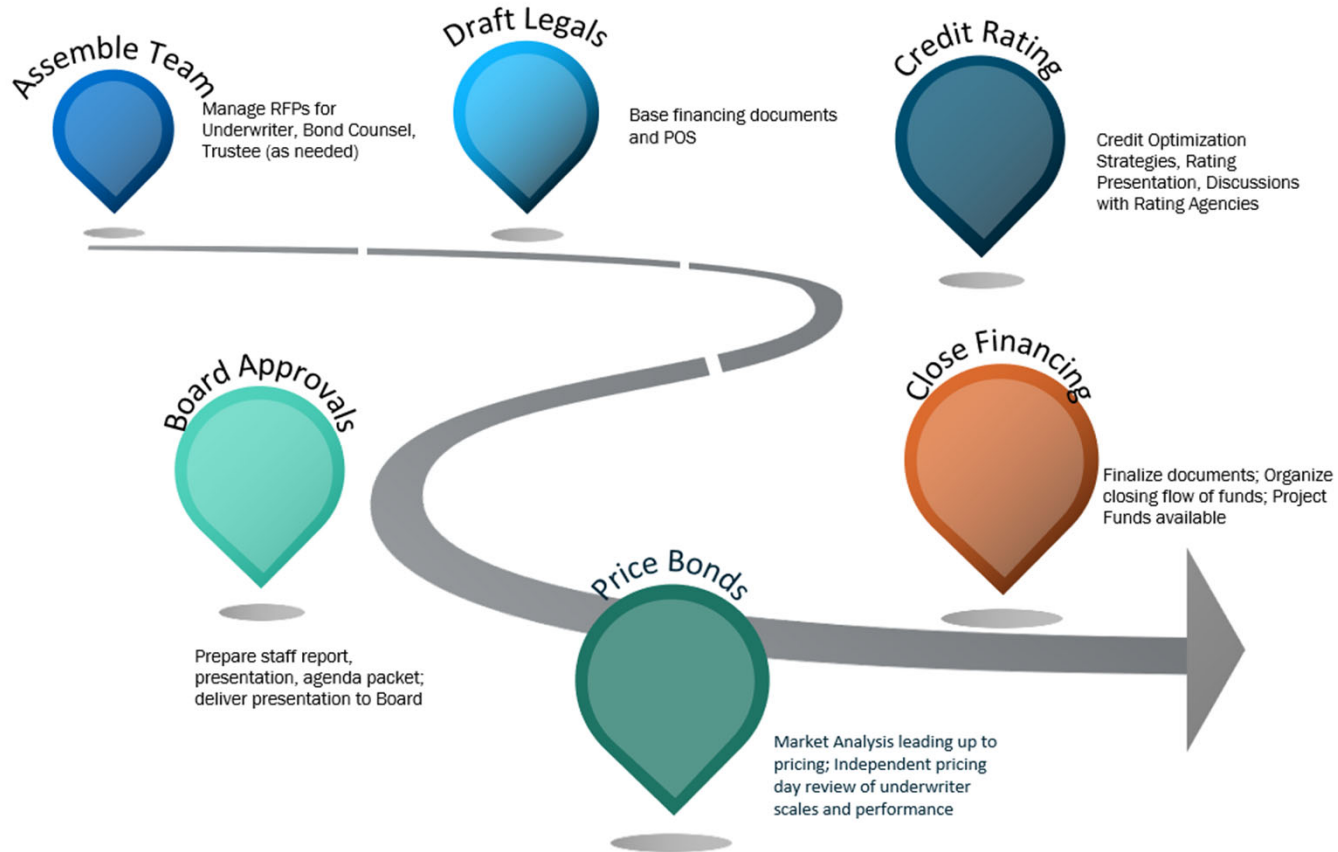
Summary Comparison of Financing Options

- ▶ Optimal funding mix
 - ▶ Maximize funding from below market rate funding sources first
 - ▶ Fill gaps, as needed, with more expensive funding sources
 - ▶ Funding sources (SRF, WIFIA) and grants will not fund 100% of project

Vista Irrigation District Flume Project
Financing Options & Average Aggregate Annual Debt Service



Typical Bond Issuance Process for a Public Offering





DEBT COVENANTS AND COVERAGE

Utility Debt Covenants

- ▶ What is a Bond Covenant?
 - ▶ Legally binding term of agreement between an issuer and bondholder or lender that can (1) require the issuer to meet specific requirements and (2) forbid the issuer from undertaking certain activities
- ▶ Utility bonds are typically secured by revenue stream pledged to repay the bonds
 - ▶ Apply for Bonds, SRF, WIFIA, IBank (virtually any financing source)
 - ▶ Key elements of the revenue pledge
 - ▶ Net Revenue Pledge – pledge of all revenues after paying operations & maintenance (excluding depreciation)
 - ▶ **Rate Covenant** - commitment to raise rates as needed to meet a debt service coverage test
 - ▶ Additional bonds test – imposes conditions to be met before any additional bonds can be issued

Rate Covenant and Debt Service Coverage

- ▶ When an issuer sells water utility bonds, it covenants with bond investors or lender that it will raise rates as needed (or reduce expenses as needed)
 - ▶ Ensures that there are enough net revenues to pay debt service and provides for cushion ("debt service coverage")
- ▶ Debt service coverage calculation is defined in the bond covenants (see below)
- ▶ Common covenants range from 110% to 125%

Standard Net Revenue Calculation

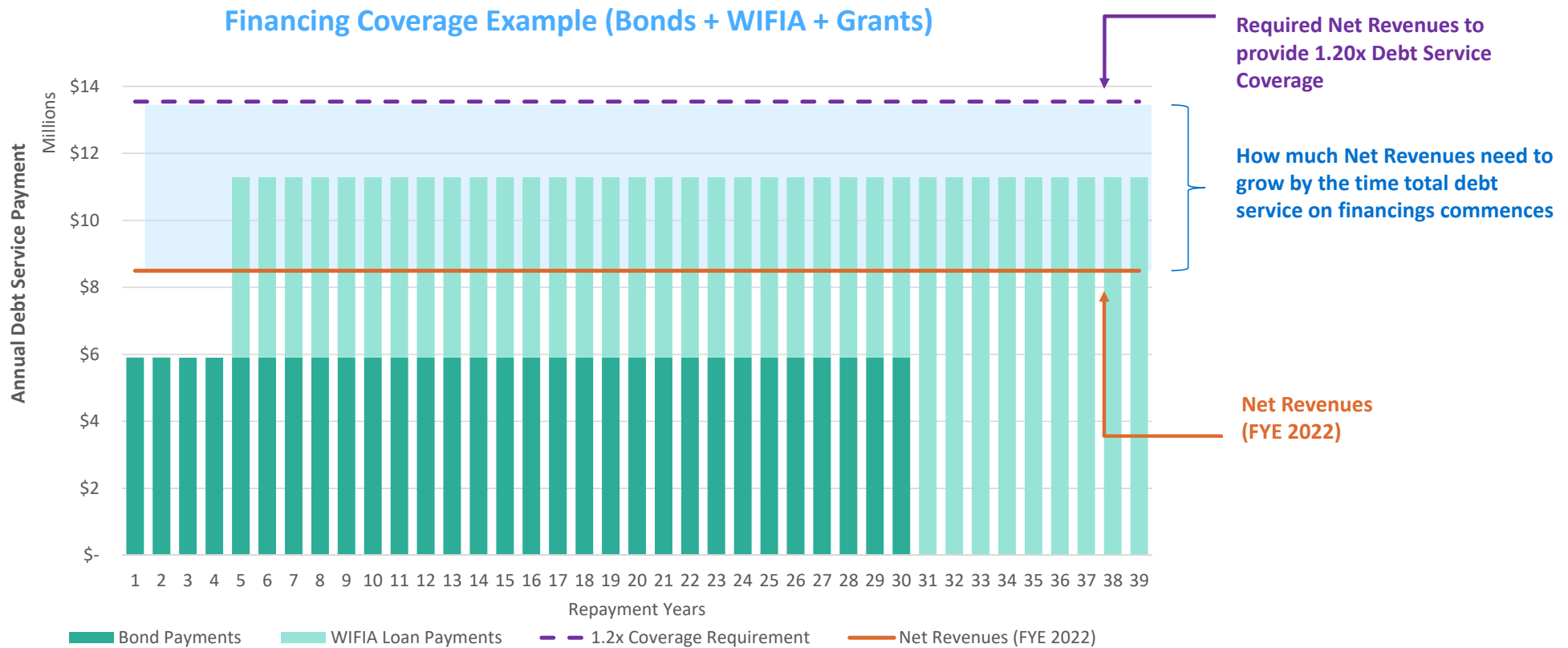
Net Revenues = Gross Revenues – Operating Costs

Debt Service = Principal + Interest Repayments

Debt Service Coverage = $\frac{\text{Net Revenues}}{\text{Debt Service}}$

* **Operating Costs** exclude depreciation and intangible expenses and replacement and capital expenses

Debt Service Considerations on Rate Revenue and Future Increases





PREPARING FOR A FINANCING

Before You Issue: Setting the Table with the Rates

- ▶ Typical recommendation is to have a Prop 218-compliant rate study performed as the basis for each rate increase
- ▶ Third-party rate consultants specializing in Prop 218 studies can be beneficial when issuing debt
- ▶ Rating agencies (and lenders) want some assurance that the issuer has a viable plan to repay the debt
 - ▶ Rating agency rate-setting practices assessment is generally favorable with multi-year, preapproved rate increases, and when periodic rate studies are common (internal or external)
- ▶ Given the size of the District's Flume project and the anticipated related financing, we encourage VID to engage a third-party rate consultant to do a 5-year rate study
 - ▶ Cost is typically \$40-\$75K for a rate study

Achieving A High Credit Rating

- ▶ Credit rating required for financing (Bonds, WIFIA loan)
- ▶ District's well-positioned for high credit rating
 - ▶ Strong economic & financial metrics
 - ▶ Strong ratepayer base
 - ▶ Very low industry risk as a monopolistic service provider of an essential public utility
 - ▶ Excellent liquidity (cash & investments) with estimated days cash on hand of approximately 200+ days; goal to maintain 150+ days
 - ▶ District has adopted credit-positive policies; goal to adopt additional policies/practices

S&P Water Rating Criteria Comprised of Enterprise Risk Profile and Financial Risk Profile Assessments

Rating Factor	Sub Factors	Weight
Enterprise Risk Profile Assessment	Economic Fundamentals	45%
	Industry Risk	20%
	Market Position	25%
	Operational Management Assessment	10%
Financial Risk Profile Assessment	All-In Coverage	40%
	Liquidity & Reserves	40%
	Debt & Liabilities	10%
	Financial Mgmt Assessment	10%

Robust, Comprehensive and Thoughtful Policies Establish Strong Roadmap for Fiscal Sustainability and Resiliency

Debt Management
Policy & Continuing
Disclosure Policy

Reserve Policy

Investment Policy

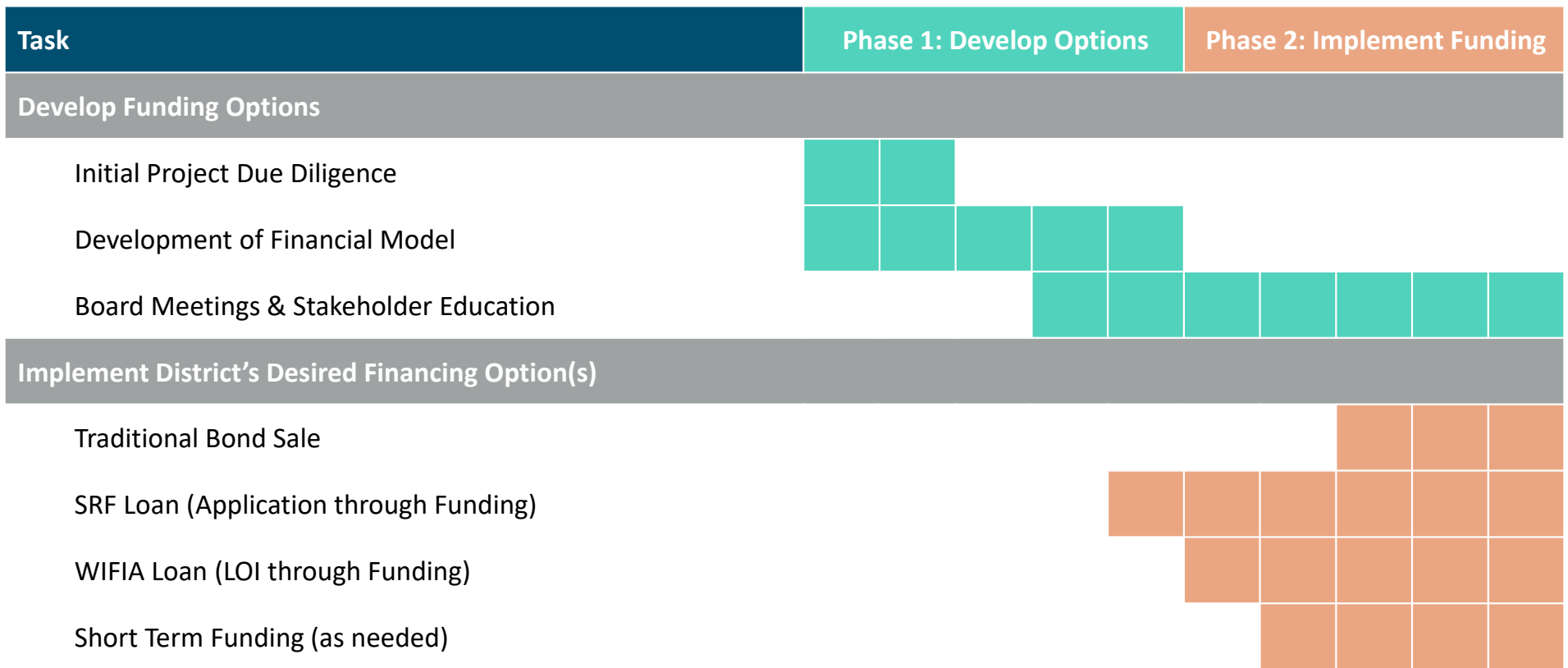
Multi-Year CIP
Policy

Multi-Year
Forecasting and
Cash Flow
Modeling

Budget and
Accounting Policies
and Practices

Cyber Security
Strategies and
Policies

Financing Implementation Process



Financing Team Requirements

▶ Issuer: Vista Irrigation District

- ▶ Governmental Agency Authorized to issue tax-exempt bonds
- ▶ Includes VID Staff and District Counsel

▶ Municipal Advisor: NHA Advisors, LLC

- ▶ Advisor to Issuer for strategic and policy decisions related to financing
- ▶ Manages financing process

▶ Bond & Disclosure Counsel

- ▶ Legal Counsel to Issuer on Tax Exempt Bonds
- ▶ Prepares all Bond Documentation and Tax-Exempt Opinion to Bondholders
- ▶ Prepares Official Statement (offering memorandum to bondholders)

▶ Underwriter

- ▶ Financial Firm That Serves as Intermediary between Issuer and Investors (bondholders)
- ▶ Expertise in Structuring Bonds for Lowest Interest Rate

To-Do List

- ▶ Identify which funding sources are available for CIP Projects
- ▶ Hire rate consultant and plan for long-term funding of Flume project
- ▶ Prepare for debt and plan for securing highest rating possible
 - ▶ Establish debt management policy
 - ▶ Review other financial policies and practices for rating purposes and alignment with District's long-term goals
- ▶ Hire financing team & consultants
- ▶ Apply for loans/grants & preparing for financing
- ▶ Execute documents & finalizing grants/loans
- ▶ Secure proceeds for Flume project

Next Steps

- ▶ Initial Project Due Diligence
 - ▶ Analyze Debt Capacity & Financial Status of District
 - ▶ Review CIP for Grant Eligibility
 - ▶ Review CIP for SRF and WIFIA Eligibility
- ▶ Development of Financial Model
 - ▶ Develop Funding Scenarios (Grant Funding and/or Debt Financing)
 - ▶ Determine Potential Water Rate Impact of Funding Scenarios
 - ▶ Development & Review of Debt-Related Policies
- ▶ Board Meetings & Stakeholder Education