

MINUTES OF THE SPECIAL MEETING OF THE
BOARD OF DIRECTORS OF
VISTA IRRIGATION DISTRICT

April 29, 2024

A Special Meeting of the Board of Directors of Vista Irrigation District was held on Monday, April 29, 2024 at the offices of the District, 1391 Engineer Street, Vista, California.

1. CALL TO ORDER

President Vásquez called the meeting to order at 9:00 a.m.

2. ROLL CALL

Directors present: Miller, Vásquez, Kuchinsky, Sanchez, and MacKenzie.

Directors absent: None.

Staff present: Brett Hodgkiss, General Manager; Ramae Ogilvie, Secretary of the Board; Randy Whitmann, Director of Engineering; Frank Wolinski, Director of Operations and Field Services; Shallako Goodrick, Director of Administration; Greg Keppler, Engineering Project Manager; and Elizabeth Xaverius, Administrative Assistant.

Other attendees: Craig Hill and Leslie Bloom of NHA Advisors; LaVonne Peck of the San Luis Rey Indian Water Authority.

3. PLEDGE OF ALLEGIANCE

Director Sanchez led the Pledge of Allegiance.

4. APPROVAL OF AGENDA

24-04-55	<i>Upon motion by Director MacKenzie, seconded by Director Miller and unanimously carried (5 ayes: Miller, Kuchinsky, Sanchez, MacKenzie, and Vásquez), the Board of Directors approved the agenda as presented.</i>
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5. ORAL COMMUNICATIONS

No public comments were presented on items not appearing on the agenda.

6. FINANCING CAPITAL PROJECTS

See staff report attached hereto.

Director of Administration Shallako Goodrick introduced Craig Hill and Leslie Bloom of NHA Advisors (NHA) who presented on financial strategies and debt management policy development for financing capital projects via a PowerPoint presentation (attached hereto as Exhibit A).

Mr. Hill reviewed the role of NHA throughout the financial planning process. He reviewed the key cash flow objectives including near-term funding options and long-term cash flow management. Mr. Hill discussed the importance of aligning project-timing with various funding strategies and he presented an

overview of the funding sources available including federal and state loan programs, capital markets and bonds. Ms. Bloom reviewed the bond issuance process including bond and rate covenants, credit rating considerations and the process of implementing financing.

Mr. Hill reviewed the next steps. He said that NHA would develop a funding strategy and financing plan based on the District's Flume Project; prepare a magnitude analysis to understand the potential impact of the different funding sources on water rates; present the financing plan options to the Board; and develop an outreach plan for community education.

The Board discussed the presentation and received clarification on the various types of funding sources and the application and timing of each type of financing. The Board thanked Mr. Hill and Ms. Bloom for a very informative presentation.

7. COMMENTS BY DIRECTORS

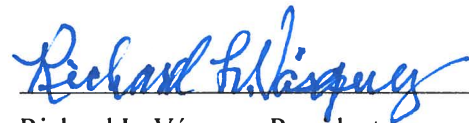
Director MacKenzie commented on a California Special District Association webinar relevant to ballot initiative 1935.

8. COMMENTS BY GENERAL MANAGER

None were presented.

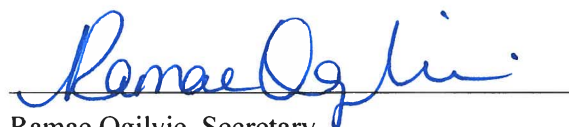
9. ADJOURNMENT

There being no further business to come before the Board, President Vásquez adjourned the meeting at 10:38 a.m.



Richard L. Vásquez, President

ATTEST:



Ramae Ogilvie, Secretary
Board of Directors
VISTA IRRIGATION DISTRICT



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

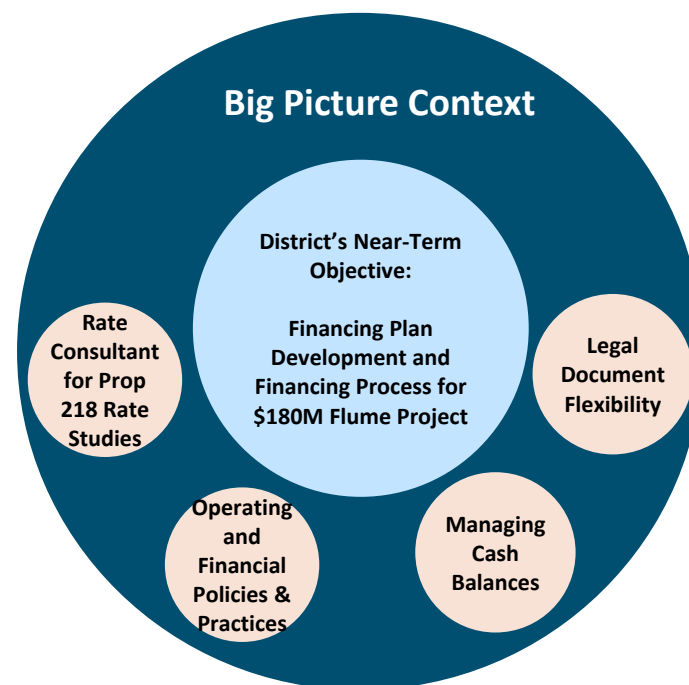
Oxnard	• \$100M Water
San Buenaventura	• \$450M Water & Wastewater
PVWMA	• \$160M Water
Palmdale Water District	• \$300M Water
Hayward	• \$520M Wastewater
BBARWA	• \$85M Water
NORS D	• \$190M Wastewater



PROJECT CASHFLOW CONSIDERATIONS

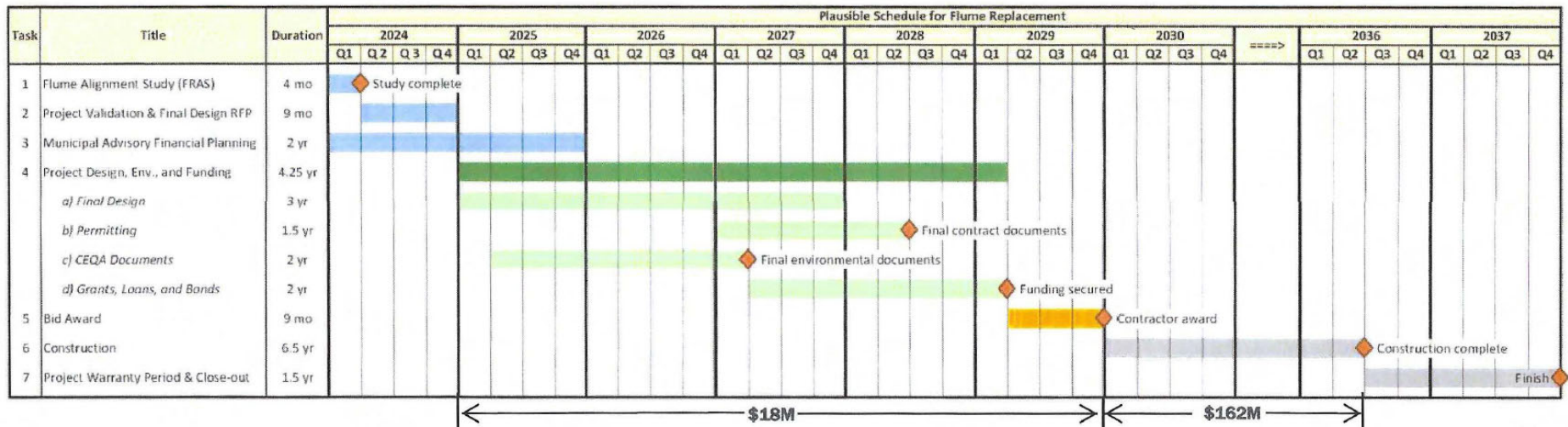
Vista Irrigation District – Key Objectives

- ▶ **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



Timing of Expenditures

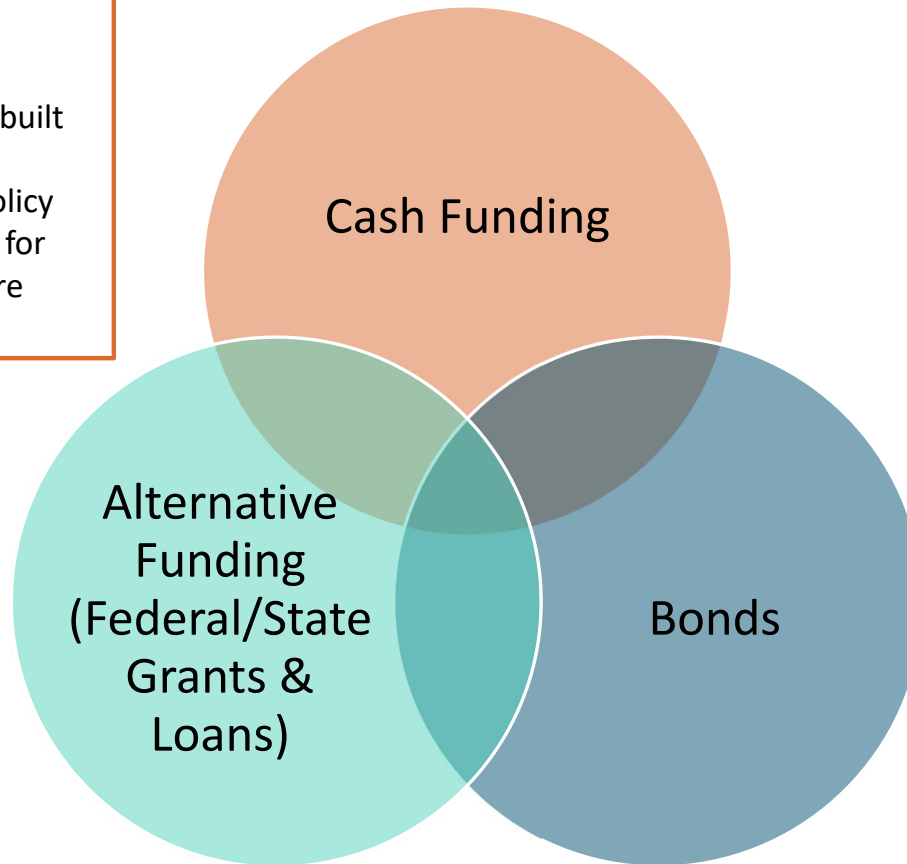
- ▶ Project construction timing provides significant period to develop funding strategies
 - ▶ Aligning project costs with funding
- ▶ Initial Phase of Financing Process includes education (no decisions on funding package)
 - ▶ Future discussions will go deeper into each funding source



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

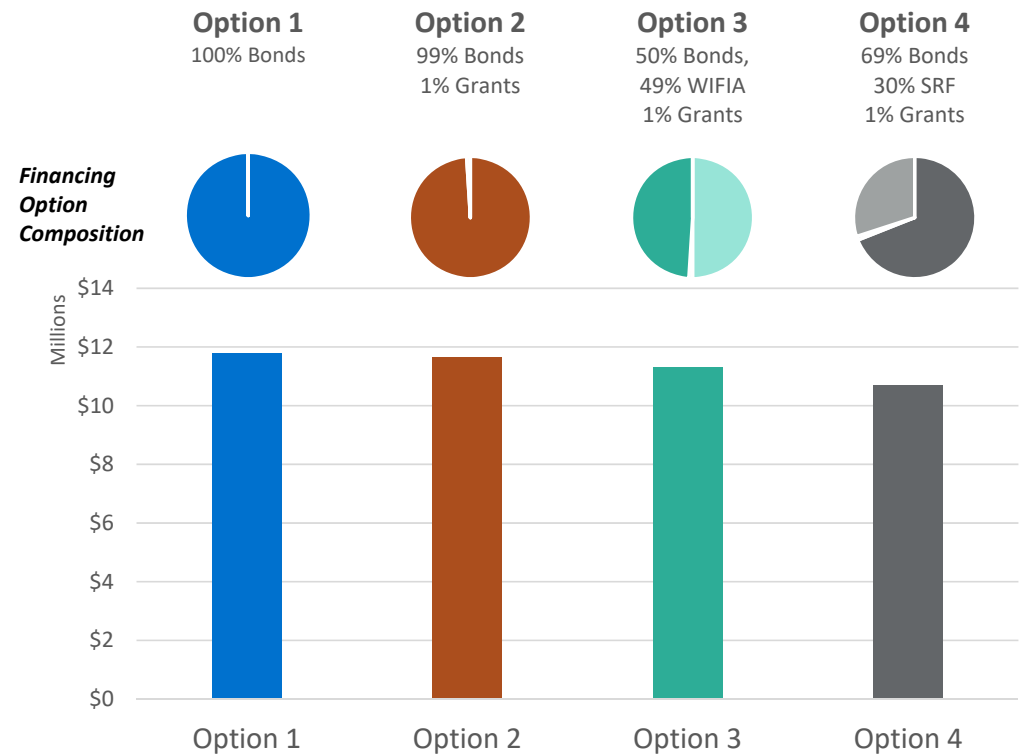
Ongoing disclosure and administration requirements

Project fund spend-down requirement (3 years)

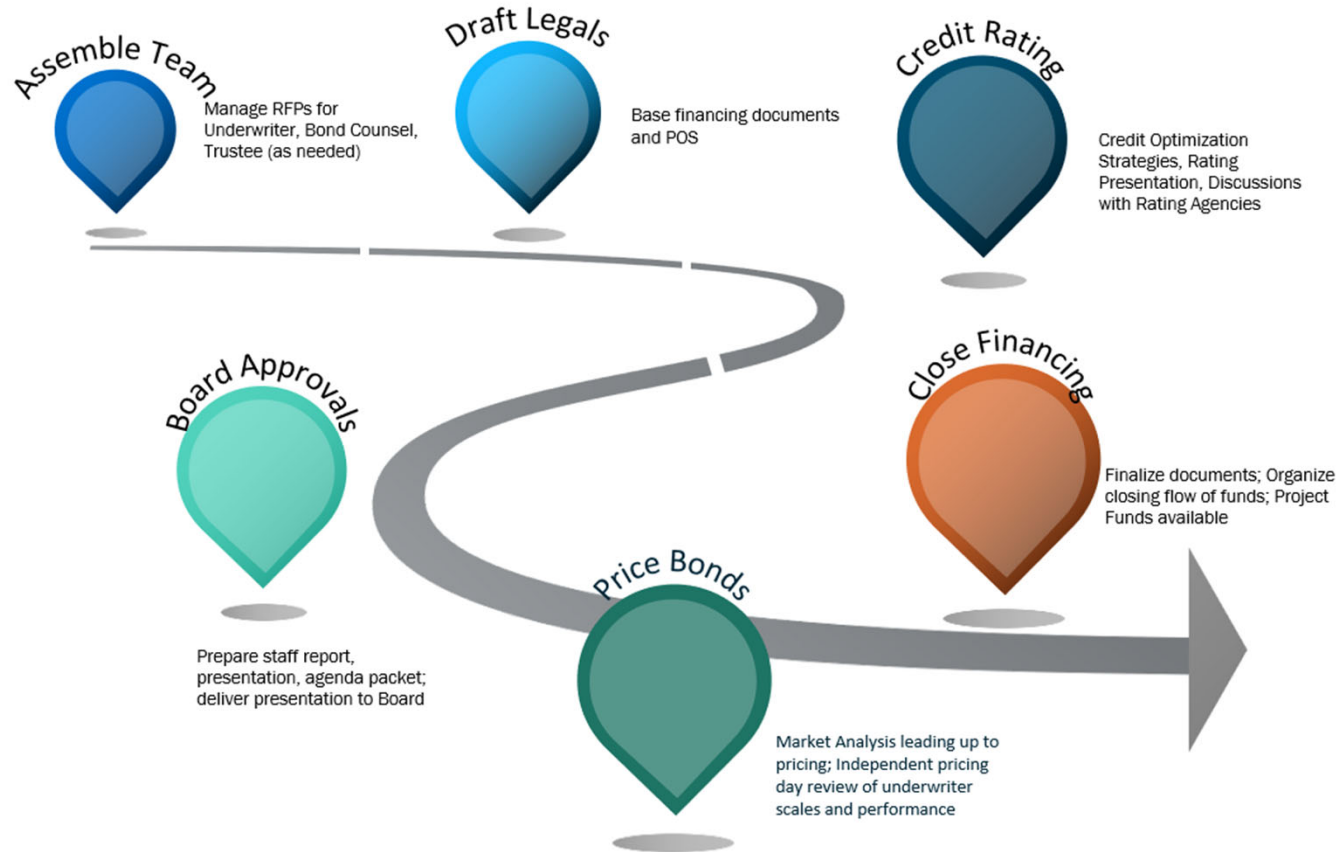
Summary Comparison of Financing Options

- ▶ 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

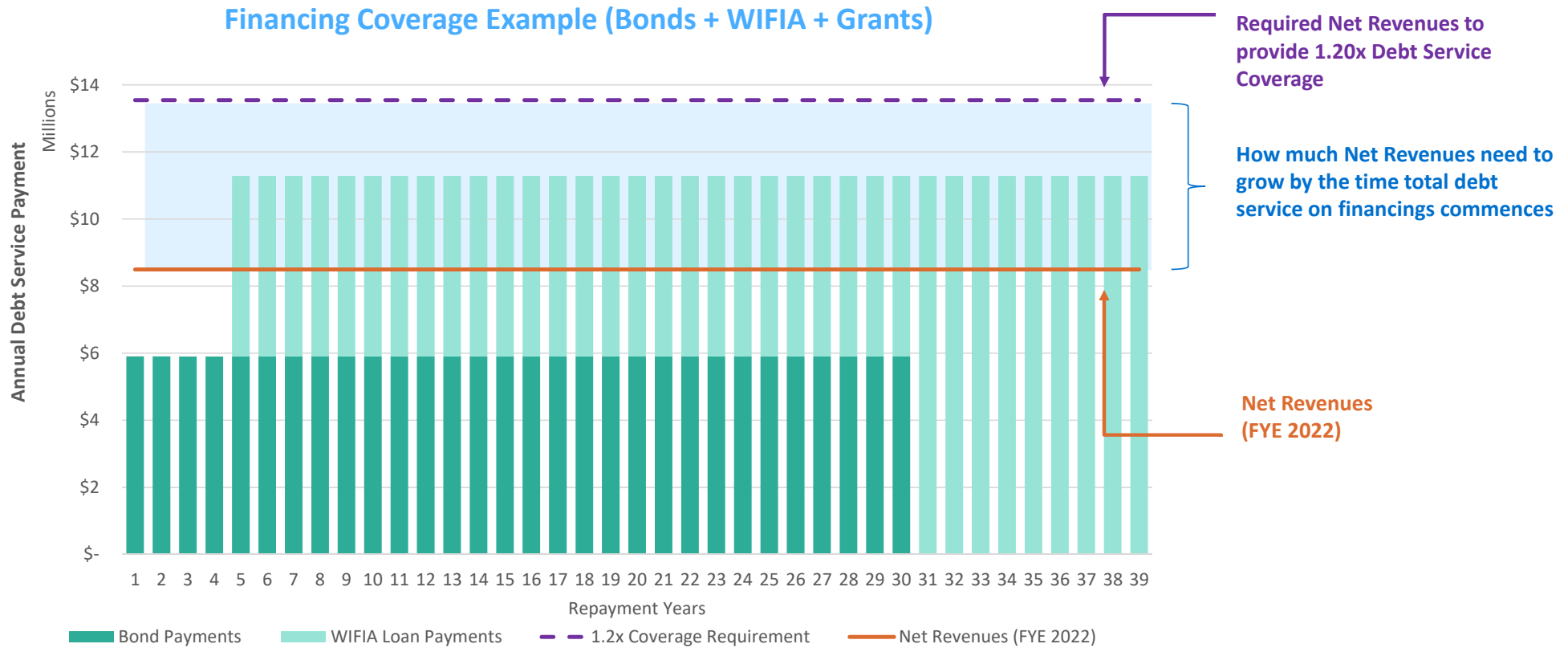
Net Revenues = Gross Revenues – Operating Costs

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 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