M E M O R A N D U M

TO: Board of Trustees

THROUGH: Indra Winquest
District General Manager

FROM: Paul Navazio
Director of Finance

SUBJECT: Presentation on Bonds and Debt Financing

DATE: July 27, 2022

A presentation has been scheduled to provide the Board of Trustees with background information related to issuance of bonds, or other debt financing.

Currently, there are a number of priority capital projects included in the District's Five-Year Capital Improvement Plan for which debt financing is either assumed (Effluent Pipeline Project) or contemplated (Community Services and Beach capital projects).

This presentation has been prepared to provide the Board with an introduction to the various forms of debt financing available to the District, the legal and policy framework within which the District may issue debt, policy considerations in debt financing, and the process and timeline required. The presentation will also cover the status of debt financing options being pursued to advance the Effluent Pipeline Project, consistent with the current project schedule.

The presentation has been prepared by Director of Finance Paul Navazio and the District's Financial Advisor, Ken Dieker, Del Rio Advisors, LLC.

Note: This presentation directly references information included in several other agenda items also included on this evening's Board agenda, including a) Annual Indebtedness Report b) Five-Year Capital Improvement Plan, and c) Incline Beach House Project

Attachments:

- Presentation Outline
- Presentation (slides)

Bonding Presentation
Outline

- Purpose of Presentation
- Legal, Statutory and IVGID Board Policy Framework
- IVGID Existing Debt Obligations
- Considerations in Debt Financing
- Types of Debt Obligations
- Participants on a Debt Offering
- Other Possible Borrowing Options
    - Term Options
    - Example Structuring Considerations

- Effluent Pipeline Project Financing
    - State Revolving Fund Loan (NDEP – Clean Water SRF Program)

- Community Services and Beach Priority Projects
    - General Obligation (Revenue-Pledge) Bond(s)
    - Cost of Borrowing (Facility Fee Impacts)

- Next Steps

An Overview of Debt Financing

Board Meeting July 27, 2022

"Independent Registered Municipal Advisor"

Outline

- Purpose of Presentation
- Legal, Statutory and IVGID Board Policy Framework
- IVGID Existing Debt Obligations
- Considerations in Debt Financing
- Types of Debt Obligations
- Participants on a Debt Offering
- Other Possible Borrowing Options
  - Term Options
  - Example Structuring Considerations

- **Effluent Pipeline Project Financing**
  - State Revolving Fund Loan (NDEP – Clean Water SRF Program)
- **Community Services and Beach Priority Projects**
  - General Obligation (Revenue-Pledge) Bond(s)

- Next Steps

Statutory and IVGID Board Policy Framework

NEVADA REVISED STATUTES

- **NRS 350: Municipal Obligations**

- **NRS 318.275 – 318.350: General Improvement District (GID) Borrowing**
  - Under NRS 318.275, the District is authorized to issue short term notes, warrants, and interim debentures; general obligation bonds; revenue bonds; and special assessment bonds
  - The District's general obligation debt (not counting revenue bonds, special assessment bonds, or other special obligations that are not debts) **cannot exceed 50% of the last assessed valuation of taxable property in the District. (Statutory Debt Limit)**

IVGID BOARD POLICIES / PRACTICES

- **Policy 14.1.0 – Debt Management Policy**

- **Practice 14.2.0 - Debt Service Payment Settlement Practice**

- **Practice 14.2.1 – Debt Issuance Limitations**

1.0 Debt issued for non-utility purposes must remain within a **Debt Coverage Ratio of at least 1.5 times**.

1.0 Debt issued for utility purposes must remain within a **Debt Coverage Ratio of 1.75 times**

2.0 The District will consider issuing a bond for any non-"utility" project or group of projects, when that totals more than $2,500,000 and can be repaid within 10 years of issuance

3.0 The District will consider issuing a bond for any "utility" project or group of projects, when that totals more than $2,500,000 and can be repaid within 20 years of the completion of the project acquisition or construction.

IVGID Existing Debt Obligations

Outstanding General Obligation Debt as of June 30, 2022

Issue	Issue Date	Maturity Date	Amount Issued	Outstanding
General Obligation Revenue Bonds Recreation				
2012 Recreation and Refunding	7/18/2012	9/1/2022	$ 3,475,000	$ 391,000
Total Recreation Revenue Supported Debt				*$ 391,000*
State of Nevada - State Water Pollution Revolving Fund				
Water Pollution CS32-0404	8/1/2006	1/1/2026	$ 3,000,000	$ 781,475
Drinking Water DW1201	3/16/2012	1/1/2032	$ 3,000,000	$ 1,710,967
Total GO Revenue Utility Debt				*$ 2,492,442*
Total General Obligation Bond Debt				**$ 2,883,442**
Medium-Term Obligation				
Capital Equipment - Installment Purchase Agreement				
PNC Equipment Finance, LLC (# 989894	2/12/2020	5/1/2025	$ 121,605	$ 58,269
Total Medium-Term Obligations				**$ 58,269**
State of Nevada Revolving Funds (Loan Contracts with Utility Revenue Pledge)				
Water Pollution C32-0204	10/28/2002	1/1/2023	$ 1,720,380	$ 125,609
Drinking Water IVGID-1	9/9/2004	7/1/2025	$ 1,687,282	$ 374,341
Total Loan Contracts with Revenue Pledge				**$ 499,950**
Total Debt Outstanding				**$ 3,441,661**

Current Debt in Comparison to Debt Limits

NEVADA REVISED STATUTES

- **NRS 318.275 – 318.350: General Improvement District (GID) Borrowing**

  The District's general obligation debt (not counting revenue bonds, special assessment bonds, or other special obligations that are not debts) **cannot exceed 50% of the last assessed valuation of taxable property in the District. (Statutory Debt Limit)**

  – The District presently has a statutory debt limit of $954,316,325, (based on the final 2021-22 Redbook Assessed Valuation of $1,902,632,649).

  – As of June 30, 2022, the District has outstanding debt of $ 3,441,661

  – Based on the District's statutory debt limit, the District's overall debt provides **$950,874,664 (99.6%) of remaining statutory debt limit.**

IVGID BOARD POLICIES / PRACTICES

- **Practice 14.2.1 – Debt Issuance Limitations – Debt Coverage Rations**

	FY2022/23 Budget	Policy Level	Minimum Level
Community Services Fund	6.95	1.50	1.0
Beach Fund	163.50	1.50	1.0
Utility Fund	5.74	1.75	1.0

Bond Issuance Process

When to Debt Finance

CAPITAL PROJECTS ONLY (NOT USED TO FUND OPERATIONS)

- With a few exceptions, obligations can only be sold only to fund long-term capital projects. Funding operating expenses is not permitted.

PAY-AS-YOU-GO (PAYGO)

- Raise rates and charges or other revenue to generate enough cash to fully pay for the proposed capital project.
- This can take years before you can begin to construct the facilities. The people paying may or may not realize the benefit of the facility.

DEBT FINANCING

- Allows an issuer to securitize a future revenue stream to build the proposed capital project now vs. waiting.
- The users paying for the facility can get the benefit of the facility.
- Reserved for projects with a longer useful life. The term of the bonds are generally matched to the term of the useful life (30-year useful life to 30-year bonds).
- Note: The term of the bonds can be anything shorter than the useful life and is determined solely by the ability to pay larger debt service payments. This can save interest costs over the life of the obligation but must be weighed against the competing cash needs of the District or the funding of other competing capital projects.

MIX OF PAYGO AND DEBT FINANCING

- Many issuer have a mix and match scenario where a portion of the project can be funded with cash and the balance financed with bonds. This makes a great deal of sense when investment returns are low on the idle cash. However, in higher interest rate environments, you might earn more interest than you are paying on an obligation.

Bond Issuance Process (Continued)

Early Considerations for Bond Issuance

DECISION TO PROCEED

- When considering a debt offering, municipalities must consider their capital plans, financial goals, financing alternatives, existing debt structure, capital budget and future debt capacity.

PUBLIC OFFERING VS. DIRECT PLACEMENT

- Public Offering: Bonds are sold during an order period to retail and institutional investors in the public market. There are a number of factors that should be taken into account when making this decision, including, the type of financing structure, the credit quality and the market environment at the proposed time of sale. Generally public offerings are sold at lower interest rates but do have additional costs for disclosure counsel to prepare an official statement and rating fees. Can take 120 to150 days to complete the financing process start to finish.

- Direct Placement: When an obligation is sold to a single investor, usually a commercial bank or other institution that holds the obligation for their own account. While the interest rates are often higher for direct placements, this can be more than offset by lower costs of issuance since no official statement or rating is required. Generally reserved for terms of 15 years or less. A term sheet is prepared and bid on by multiple banks and institutions. Can take 60 to 90 days to complete the financing process start to finish.

COMPETITIVE VS. NEGOTIATED SALE (PUBLIC OFFERING)

- Once a decision is made to borrow from the capital markets in a public offering, the issuer has to determine whether to undertake a competitive or negotiated sale. There are a number of factors that should be taken into account when making this decision, including, the type of financing structure, the credit quality and the market environment at the proposed time of sale. In a competitive sale, underwriting firms bid on the bonds in a competitive process on a date and time certain with the entire issue awarded to the bidder with the lowest true interest cost (TIC).

Types of Debt Obligations

Utility Funds

Utility Revenue Bonds

- Collected by the District and secured by only the specific rates and charges for the water / sewer service provided
- Not secured by the full faith and credit of the District
- District covenants to raise rates and charges to maintain the Rate Covenant (1.25x, etc.)
- Additional Bond Test identifies the conditions under which the District can issue additional obligations secured by the same utility funds
- Requires majority vote of the District Board

General Obligation Bonds

- Collected by the District and secured by the specific rates and charges for the water / sewer service provided
- Secured by the full faith and credit of all funds of the District
- Requires 4/5th vote of the District Board
- Washoe County Debt Commission must also approve G.O debt financing (2/3 vote)
- 90-day comment period
- Proceed absent petition of 5% of registered voters

Types of Debt Obligations (continued)

Community Services Fund and Beach Fund

General Obligation (Revenue) Bonds

- Secured by the specific Facility Fee collected by the County on the property tax bill
- "Promise to pay"
- Secured by the full faith and credit of all funds of the District but the internal source of repayment is the respective fund.
- Must be approved by 4/5th vote of the District Board
- Washoe County Debt Commission must also approve the financing
  - 90-day comment period
  - Proceed absent petition of 5% of registered voters

Special Assessment Bonds

- A special assessment is a lien on the property until the assessment is paid off.
  - Special assessments are different than real property taxes
  - May only be levied against parcels which have been identified as having received a direct benefit from the public project.
  - The cost of these projects is apportioned, or divided, among properties that benefit from them. Secured by only the special assessments paid by the assessed property owners
- Remedy in the event of delinquent assessments is foreclosure on the assessed property
- Not secured by the full faith and credit of the District

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Financing Participants

Detail of the Most Significant Players

FINANCING TEAM	OTHER POSSIBLE PARTICIPANTS
Underwriter (Public Offering)	**Trustee**
Sells the bonds to retail buyers and institutions	Makes debt service payments to bondholders
Purchases the bonds in a competitive sale	Manages bond proceeds
	Tracks bondholders
Placement Agent	
Sells the obligation to a direct placement lender	**Rating Agencies**
	Standard & Poor’s
Legal Counsel	Moody’s
Bond Counsel (Counsel to Issuer)	Fitch
Underwriters’ Counsel	
Disclosure Counsel (Prepares the OS)	**Major Bond Insurance Companies**
	BAM
Municipal Advisor	Assured Guaranty
Fiduciary duty to the issuer	
Advises as to structure, timing and terms	**Letter of Credit Banks**
	Domestic & Foreign Commercial Banks

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Other Participants

Credit Providers

Credit providers are important participants in the tax-exempt market. Issuers sometimes employ various forms of credit enhancement to improve the credit rating for their issue and thus reduce the overall cost of borrowing.

BOND INSURANCE

- Bond insurance is an “unconditional and irrevocable guaranty that the insurance company will pay all principal and interest” on the debt obligations for the life of the debt. An insured issue receives the rating of the insuring company, since it is the insurance company that is providing the ultimate security for the bonds. In return, the bond insurance provider receives a fee paid on the closing date that is non-refundable even if the bonds are subsequently refunded.

LETTER OF CREDIT

- Letters of credit differ from bond insurance in that they have an expiration date - they provide insurance only for a set period of time rather than for the full life of the bond. Letters of credit provide the same unconditional guarantee of payment in the event of default. Letters of credit are issued by domestic or foreign commercial banks whose credit rating is then applied to the bonds. The cost of the letter of credit is called a credit facility fee and is paid at closing and over the term of the bonds. This form of enhancement is usually used for a variable rate demand obligation (VRDO) program.

LINE OF CREDIT

- A line of credit is another instrument through which an issuer can borrow funds. Renewal occurs on an annual basis and the fee for the line of credit is usually a percentage of debt outstanding. This form of enhancement is usually associated with a commercial paper program.

Bond Ratings

Breakdown of Municipal Ratings

- Aaa - Bonds rated Aaa are judged to be of the best quality and carry the smallest degree of investment risk. Interest payments are protected by an exceptionally stable margin and principal is secure.
- AA/Aa - Bonds rated Aa are judged to be high quality by all standards. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities.
- A - Bonds rated A possess many favorable investment attributes and are to be considered upper medium grade obligations. Elements may be present which suggest a susceptibility to adverse changes in the future.
- BBB / Baa - Bonds rated Baa are considered medium grade obligations, i.e., they are neither highly protected nor poorly secured. These bonds have speculative characteristics.
- BB / Ba - Bonds rated Ba are judged to have speculative elements and uncertainty of position. Often the protection of interest and principal payments may be very moderate.
- B / B - Bonds rated B lack the characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
- CCC / Caa - Bonds rated Caa are in poor standing. Such issues may be in default or elements of danger may be present with respect to the payment of principal or interest.
- CC / Ca - Bonds rated Ca represent obligations that are highly speculative. Such issues are often in default or have other marked shortcomings.
- C / C - Bond rated C are the lowest rated class of bonds. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.
- Note: Moody’s applies the numerical modifier 1, 2 and 3 in each rating category, with 1 reflecting the highest credit level.

Other Possible Borrowing Options

Grants and Low Interest Loan Programs

GRANT FUNDING

- Generally, the least expensive option but may require matching funds which can be financed

STATE REVOLVING FUND (SRF) LOANS

- The obligation is issued directly to the Nevada Division of Environmental Protection (NDEP) for both Clean Water and Drinking Water loans. These are generally at much lower interest rates than market interest rates on bonds.
- Requires ongoing reporting and compliance

WATER INFRASTRUCTURE FINANCE AND INNOVATION ACT (WIFIA)

- The obligation is issued directly to the Environmental Protection Agency (EPA) at a lower interest rate than market interest rates on bonds.
- The issuer makes draws against the loan to pay project costs
- Flexible structuring options
- Requires detailed defined projects and environmental approval
- Requires ongoing reporting and compliance

RECOMMENDATION: The District should explore all these other options with bonds being a last resort

Term Options

Types of Debt

Issuers have the authority to determine what types of bonds they will permit to be issued within their jurisdictions. Specific state requirements outline restrictions regarding the nature, term, purpose and structure of bonds.

LONG-TERM BONDS

- **Bond:** A debt obligation that specifies the repayment of principal and interest over a stated maturity.
- **Principal:** The principal, or par, amount of a bond is the amount initially borrowed.
- **Interest:** The amount investors charge for the use of funds.
- **Example:** Most municipal bonds pay principal on an annual basis and interest on a semi-annual basis. If IVGID borrowed $100,000 par amount today at a rate of 4% and had to pay semi-annual interest over a one-year period, it would have to pay $2,000 in interest at the end of each six-month period and repay the $100,000 of principal at the end of the year. Interest = Principal x Interest Rate / Period ($100,000 x 4%/2 = $2,000).
- **Variable Rate Demand Obligations (VRDOs):** Long-term obligation with interest rates generally remarketed weekly. VRDOs are used to finance long-term capital projects but designed to take advantage of short-term interest rates. Requires a letter of credit as a backstop to provide liquidity in the event of a failed remarketing.

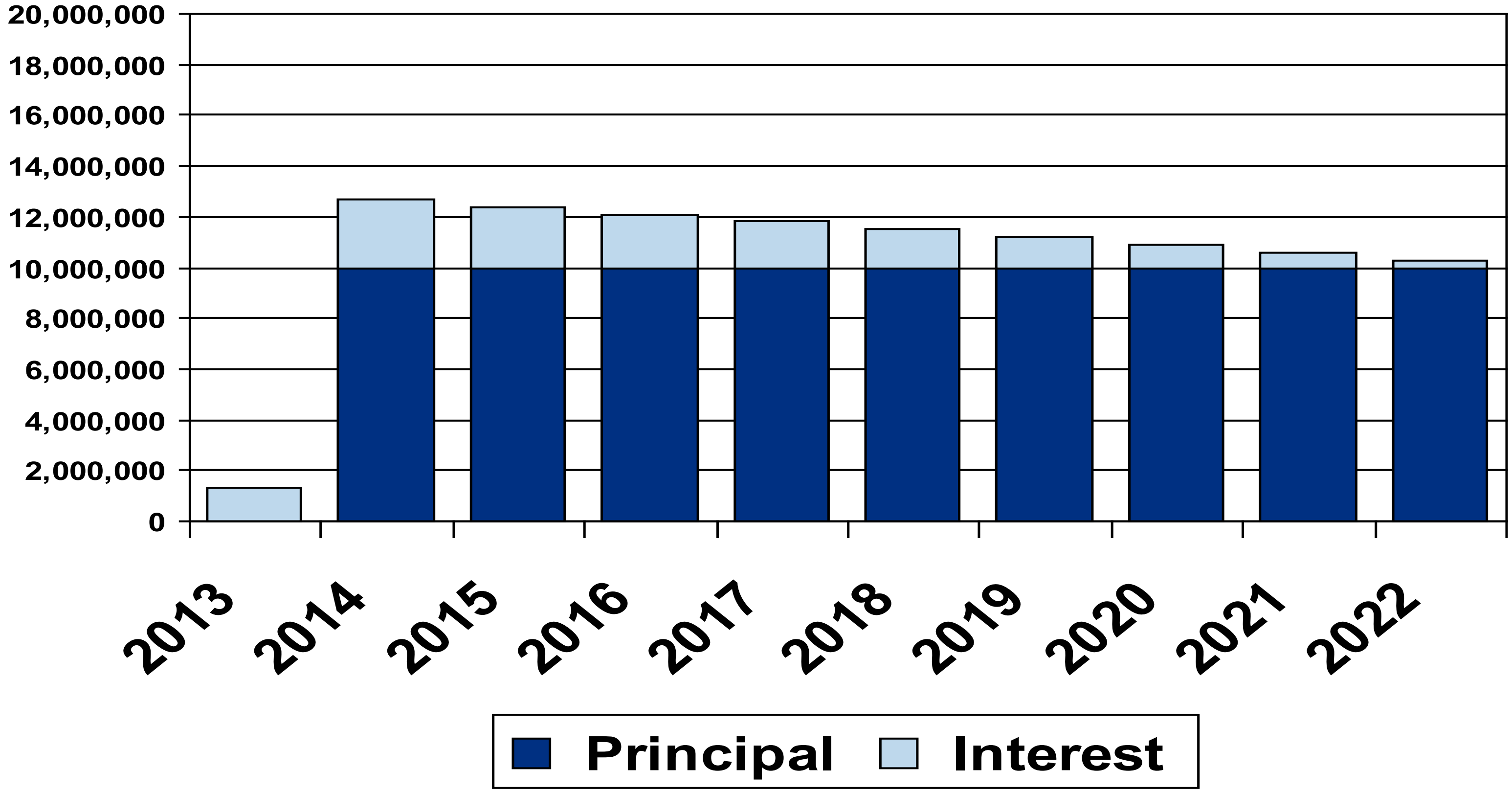
SHORT-TERM NOTES (Interim Borrowing)

- **Bond Anticipation Notes (BANs):** Used to obtain interim financing for projects that will eventually be financed through the sale of long-term bonds.
- **Tax and Revenue Anticipation Notes (TRANs):** Issued in anticipation of tax receipts or other revenues.
- **Tax-Exempt Commercial Paper (TECP):** A flexible form of short-term paper used to smooth cash flow inefficiencies and has a maximum maturity of 270 days. Generally, requires a letter of credit or liquidity facility to provide liquidity for when notes are rolled over upon maturity.

Example Structuring Considerations

Issuers can use amortization structures to shape their overall debt structure pattern

- **Level Principal**



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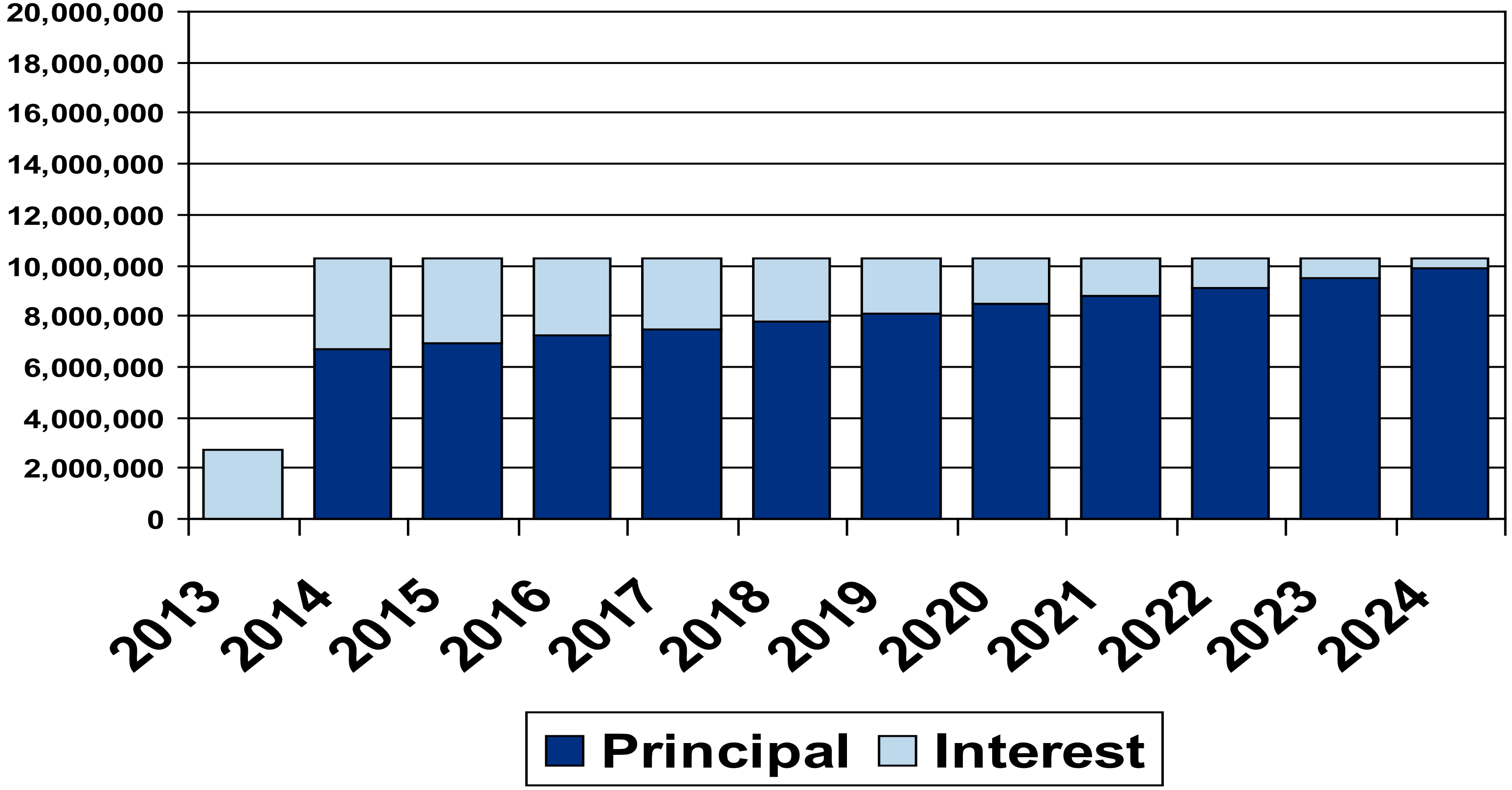
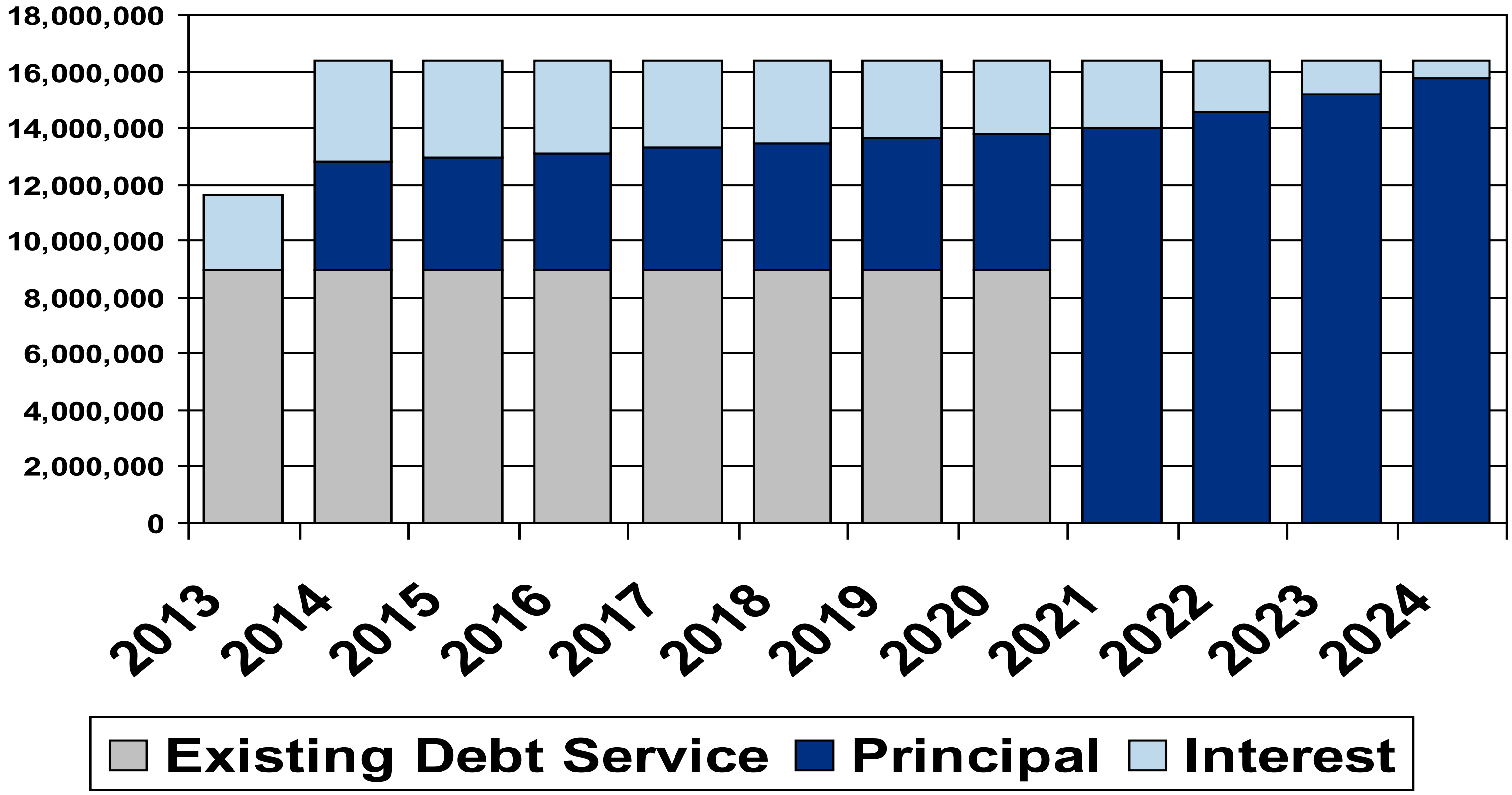
Amortization of Principal (Continued)

- **Level Debt Service**



Amortization of Principal (Continued)

- **<u>Wrapped Level Debt Service around Existing Debt Service</u>**



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EFFLUENT PIPELINE PROJECT

- Project Cost Estimate: $45.5 million
- Funding Set-Aside (Board Policy) - $14.2 million
- Utility Rate Plan contemplates up to $38.5 million in Revenue Bonds for Utility capital projects
  - 30- year bonds
  - 4.0% interest
- State Revolving Fund Loan Program – NDEP
  - Pre-application process has resulted in project being placed on PRIORITY LIST for Clean Water SRF Loan Program.

Nevada Clean Water State Revolving Fund Priority List
Effective June 2022
DRAFT VERSION (3)

Class A: Project benefits public health and/or the environment

Priority Number	N[1]	D[2]	G[3]	Applicant	Parent Entity	Permit No.	Project Population	Total Points	State MHI / PWS MHI	Revised Points	Project Description	Program Cost Estimate	Notes[4]	Funded[5]
1		D		Fallon Paiute-Shoshone Tribe - CW		TRIBAL	700	27	1.23	33.23	Retention Lagoon & lift Station Rehabilitation	$500,000		Yes
2	N	D		Esmeralda County - Goldfield - CW	Esmeralda County - CW	NS0040030	237	16	1.71	27.36	Goldfield Sesspit Correction	$210,595		
3		D		Minden Gardnerville Sanitation District		NS0040027	520	23	0.87	20.12	MGSD-Pine View Estates Sewer	$802,400		
4				Humboldt County - CW			4,000	16	0.92	14.78	Grass Valley PER Nitrate Compliance	$95,000		Yes
5		D		McGill Ruth Consolidated Sewer & Water GID - CW		NS0087046	905	11	1.12	12.32	McGill WWTP Upgrade	$1,750,000		
6				Pershing County - CW			500	10	1.09	10.87	Grass Valley waste water treatment facility	$2,968,875		
7				Pershing County - CW			500	10	1.09	10.87	Grass Valley Waste Water PER	$85,000		
8	N		G	Incline Village GID - CW		NS0030009	9,462	20	0.52	10.40	Effluent Export Pipeline Seg 2	$33,423,549		
9	N	D		Carson City - CW		NS0090008	57,000	7	1.06	7.45	SE Mandatory SS Extension	$12,355,403		
10	N	D		Elko County - Montello - CW	Elko County - CW	NS0030003	287	6	1.10	6.59	Sewer Pond Relining	$483,075		
11		D		Humboldt County - CW			1,634	6	0.94	5.63	Grass Valley Waste Water Improvement	$27,395,581		
Total Class A Projects												$80,069,478		

EFFLUENT PIPELINE PROJECT

- **Advantages of SRF Loan Program**
  - Below-market interest rate: Currently 54% of Bond Buyer Index for 20-year for G.O. Bond
  - Typical loan repayment structured over 30 years, starting at project completion
  - Requires 1.0 Debt-Coverage Ratio (*Per State Requirement – lower than IVGID Policy*)
  - No Debt Reserve requirement
  - SRF Loan can also be secured via Revenue Bond at slightly less favorable terms.
- **Process Required to Secure SRF Loan**
  - Project must meet specified eligibility criteria for placement on Priority List
  - Submit Letter of Intent / Environmental Review Checklist
  - Borrower obtains governing board authority to submit loan application
    - Requires Authority to Issue PRIVATE PLACEMENT BOND, purchased by State Treasury
      - May be structured as EITHER General Obligation Bond or Revenue Bond
      - **IF** structured as General Obligation Bond – per NRS, requires approval of Washoe County Debt Management Commission
      - G.O, Bond approval process requires 90-day comment period.
- **Bond terms structured to match Loan Terms**
- **Loan executed concurrent with close on sale of bonds.**
- **Borrower draws-down loan on a reimbursement basis**
- **No requirement to draw-down full amount of loan.**

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COMMUNITY SERVICES AND BEACH PROJECTS

- **COMMUNITY SERVICES PROJECTS**

Five-Year Capital Plan Projects

– Snowflake Lodge Remodel	$ 4,500,000 (FY24/25)
– Ski Way – Diamond Peak Parking Lot	$ 3,600,000 (FY25/26)

Other Projects - *(Not currently in multi-year plan)*

– Lakeview Lift Replacement	$ 6,000,000

- **BEACH PROJECTS**

Five-Year Capital Plan Projects

– Incline Beach House Project	$ 3,250,000 (FY23/24)
– Beach Access (Ingress/Egress)	$ 600,000
– Other (?)	

COMMUNITY SERVICES AND BEACH PROJECTS

Cost of Issuance (Facility Fee Impacts)

	Sample Cost of Borrowing *(Excludes Cost of Issuance)*					
Interest Rate	**3.0%**		**4.0%**		**5.0%**	
Amortization Period	**20**	**30**	**20**	**30**	**20**	**30**
Loan Amount						
$ 1,000,000	$ 67,216	$ 51,019	$ 73,582	$ 57,830	$ 80,243	$ 65,051
$ 5,000,000	$ 336,080	$ 255,095	$ 367,910	$ 289,150	$ 401,215	$ 325,255
$ 10,000,000	$ 672,160	$ 510,190	$ 735,820	$ 578,300	$ 802,430	$ 650,510
$ 20,000,000	$ 1,344,320	$ 1,020,380	$ 1,471,640	$ 1,156,600	$ 1,604,860	$ 1,301,020

Estimated Annual Facility Fee Impact		**3.0%**		**4.0%**		**5.0%**	
		20	**30**	**20**	**30**	**20**	**30**
Community Services	$1.0M	8	6	9	7	10	8
Beach		9	7	9	7	10	8
Community Services	$5.0M	41	31	45	35	49	40
Beach		43	33	47	37	52	42
Community Services	$10M	82	62	90	70	98	79
Beach		87	66	95	75	104	84
Community Services	$20M	164	124	179	141	196	159
Beach		174	132	190	149	207	168

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NEXT STEPS

- **Follow-up from Board Feedback and Questions**
- **Complete Engagement of Financing Team (Bond Counsel)**
  - Request Bond Counsel to assess tax-status of possible bonds supporting Beach Projects
- **Effluent Pipeline Project**
  - Return to BOT (August) with Letter of Intent to Submit SRF Loan Application
  - Notice to Washoe County Debt Management Commission
- **Community Services and Beach Projects**
  - Advance project scope, definition and project cost estimates
  - Update Five-Year Capital Plan to include projects and proposed financing
    - (FY2023/24 update cycle)
  - Update bonding capacity analysis for Community Services and Beach Funds
  - Present specific debt financing options / strategies to BOT (Spring 2023)
  - Seek Board direction on proceeding with possible bond financing

Questions and Discussion

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