

## MEMORANDUM

**TO:** Board of Trustees

**THROUGH:** Indra Winquest  
District General Manager

**FROM:** Paul Navazio  
Director of Finance

**SUBJECT:** Review, discuss and provide direction related to submittal of Letter of Intent with the Nevada Department of Environmental Protection (NDEP) related to a Clean Water Revolving Fund (SRF) loan application, to include intent to issue a Revenue Bond secured by net reviews of the District's Utility Fund, in support of the Effluent Pipeline Project

**DATE:** August 31, 2022

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### **I. RECOMMENDATION**

That the Board of Trustees makes a motion to approve the submittal of Letter of Intent with the Nevada Department of Environmental Protection (NDEP) related to a Clean Water Revolving Fund (SRF) loan application, to include intent to issue a Revenue Bond secured by net reviews of the District's Utility Fund, in support of the Effluent Pipeline Project.

### **II. BACKGROUND**

This agenda item has been prepared to provide the Board of Trustees with an update regarding staff efforts to secure a Clean Water State Revolving Fund (SRF) loan through the Nevada Department of Environmental Protection (NDEP) in support of the District's Effluent Pipeline Project, and to seek Board concurrence on next steps in the application process.

The Board received an initial presentation on the opportunity to secure a Clean Water SRF loan as part of the bonding discussion presented at the meeting of July 27, 2022.

Once the input is received at the August 31, 2022 Board of Trustees meeting, Staff will prepare and submit the Letter of Intent accompanied by all relevant and necessary documents.

Attachment:

- 1) SRF Loan Application – Board Direction and Next Steps



## Effluent Pipeline Project

State Revolving Fund Loan Application

Board Direction and Next Steps

August 31, 2022



Del Rio Advisors, LLC

*"Independent Registered Municipal Advisor"*

# IVGID Existing Debt Obligations

## Outstanding General Obligation Debt as of June 30, 2022

Issue	Issue Date	Maturity Date	Amount Issued	Outstanding
<b>General Obligation Revenue Bonds Recreation</b>				
2012 Recreation and Refunding	7/18/2012	9/1/2022	\$ 3,475,000	\$ 391,000
<i>Total Recreation Revenue Supported Debt</i>				<u>\$ 391,000</u>
<b>State of Nevada - State Water Pollution Revolving Fund</b>				
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
<i>Total GO Revenue Utility Debt</i>				<u>\$ 2,492,442</u>
<b>Total General Obligation Bond Debt</b>				<u><b>\$ 2,883,442</b></u>
<b>Medium-Term Obligation</b>				
Capital Equipment - Installment Purchase Agreement				
PNC Equipment Finance, LLC (# 9898941)	2/12/2020	5/1/2025	\$ 121,605	\$ 58,269
<b>Total Medium-Term Obligations</b>				<u><b>\$ 58,269</b></u>
<b>State of Nevada Revolving Funds (Loan Contracts with Utility Revenue Pledge)</b>				
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
<b>Total Loan Contracts with Revenue Pledge</b>				<u><b>\$ 499,950</b></u>
<b>Total Debt Outstanding</b>				<u><b>\$ 3,441,661</b></u>

# STATE REVOLVING FUND (SRF) LOAN PROGRAM

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- 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.**
- **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
- **Process Required to Secure SRF Loan**
  - Project must meet specified eligibility criteria for placement on Priority List
  - Submit Letter of Intent
  - Complete Environmental Review Checklist
  - Borrower obtains governing board authority to submit loan application
  - Requires Authority to Issue PRIVATE PLACEMENT BOND, purchased by State Treasury
- **Bond terms structured to match Loan Terms**
- **Loan executed concurrent with close on sale of bonds.**
- **SRF Loan funds must be expended within 3 years**
- **Borrower draws-down loan on a reimbursement basis**
- **No requirement to draw-down full amount of loan.**

# STATE REVOLVING FUND (SRF) LOAN PROGRAM

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- **PRIVATE PLACEMENT BOND** - Purchased by State Treasury
  - May be structured as EITHER General Obligation Bond or Revenue Bond
  
- **General Obligation Bond**
  - Secured by the full faith and credit of all funds of the District
  - Requires 1.0 Debt-Coverage Ratio
  - No Debt Reserve requirement
  - Requires 4/5 vote of the Board
  - Per NRS, requires approval of Washoe County Debt Management Commission
  - Requires 90-day comment period.
  
- **Revenue Bond**
  - Secured by only the specific rates and charges for the water / sewer service provided
  - District covenants to raise rates and charges to maintain the Rate Covenant
  - Requires 1.25 Debt-Coverage Ratio
  - Requires establishment of Debt Service Reserve Fund (funded from District reserves)
  - Requires majority vote of the Board
  - Does not require approval by Washoe County Debt Management Commission
  - Process to issue Revenue Bond is less time-consuming (+/- 3 months)

# Bond Issuance Timelines - SAMPLE

	SRF LOAN PROCESS	
	G.O. Bond	Revenue Bond
Review of bonding capacity / market opportunities	Aug.	Aug.
Initiate Draft Bond Documents	Aug / Sept	Aug / Sept
Board of Trustees adopts DMC Notice Resolution	8/31/2022	
Financial information submitted to the clerk of the Debt Management Commission (“DMC”)	9/1/2022	
DMC meets and adopts Approval Resolution	9/19/2022	
Board adopts Resolution of Intent and Sale Resolution	9/28/2022	
Publish Notice of Intent / 1st Notice of Public Hearing	9/30/2022	
90-day Petition Period Begins	9/30/2022	
Publish 2 <sup>nd</sup> Notice of Public Hearing	10/7/2022	
Publish 3 <sup>rd</sup> Notice of Public Hearing	10/14/2022	
Public Hearing (at least 10 days after 3 <sup>rd</sup> Notice of Public Hearing)	10/26/2022	
State Revolving Fund (“SRF”) distributes draft Loan Contract 12/29/22	12/20/2022	9/26/2022
90 Day Petition Period ends	12/29/2022	
Adoption of Bond Resolution (Effective from and after adoption)*	Jan. '23	10/26/2022
Sale of Bonds		
SRF Loan Contract executed by Director of Finance*	2/2/2023	11/3/2022
Bond Closing	2/23/2023	11/17/2022
SRF Loan Closing*	2/23/2023	11/17/2022

# EFFLUENT PIPELINE PROJECT – SRF LOAN

- 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 <sup>1</sup>	D <sup>2</sup>	G <sup>3</sup>	Applicant	Parent Entity	Permit No.	Project Population	Total Points	State MHI / PWS MHI	Revised Points	Project Description	Program Cost Estimate	Notes <sup>4</sup>	Funded <sup>5</sup>
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		
<b>Total Class A Projects</b>												<b>\$80,069,478</b>		

# SRF LOAN APPLICATION - RECOMMENDATION

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- **Staff to submit formal Letter of Intent for Clean Water SRF Loan**
- **“Reserve” Loan Amount in range of \$40+ million**
  - Staff developing cash-flow forecast through project completion
  - Final loan amount to be determined at time of executing final loan documents
  - Project is sensitive to unpredictable construction cost inflation index
  - District will be awarding annual construction contracts through project completion
- **Recommend securing SRF Loan through a Revenue Bond (Private Placement)**
  - Secured by net revenue pledge of the District’s Utility Fund
  - Cost of funds is identical to General Obligation bond
  - Required Debt Coverage Ratio and Debt Reserve Account can be accommodated within the Utility Fund long-term financial plan (*lower than current Board policy*).
  - Expedited time-frame for securing SRF loan (prior to award of construction contract(s))
- **Engage Bond Counsel (Sherman & Howard, LLC)**
  - Successor firm to District’s Bond Counsel on existing debt obligations
  - Extensive experience with NDEP/SRF loan application process
  - Initiates drafting of formal bond documents