Nevada Irrigation District

Staff Report

for the Board of Directors' Meeting of October 14, 2020

TO: Board of Directors

FROM: Marvin Davis, MBA, CPA, Finance Manager/Treasurer

DATE: October 7, 2020

SUBJECT: **2020A Refunding Revenue Bonds**

FINANCE

RECOMMENDATION:

Approve the negotiated sales approach and authorize the Interim General Manager to execute the appropriate documents to issue the 2020A Revenue Bonds.

BACKGROUND:

At the August 12, 2020 Board meeting, the Board adopted Resolution 2020-19, authorizing the issuance of the 2020A Revenue Bonds for the purpose of refunding its' outstanding 2011A Revenue Bonds. The Continuing Disclosure requirement for the 2011A Revenue Bonds requires the District to file its' audited financial statements no later than 270 days after its fiscal year close. Due to staffing issues, the District is unable to comply with this disclosure.

The District's financial advisors indicate that while the District is out of compliance with this annual filing requirement, the 2020A issuance must have the final 2019 audited financial statements in order to proceed with the sale.

Competitive Sale Issues

The District's Debt Management Policy allows for either a "Negotiated" or a "Competitive" approach to issuing its debt. Historically, the District has followed the competitive method to issue its' debt. This approach allows the sale of the bonds in an open market at the lowest possible interest rate. However, this approach requires longer filing periods prior to the sale, which would result in the final sale after this year's presidential election. Due to the delay in this year's audited financial statements, as well as anticipated financial market volatility leading up to and after this year's presidential election, staff is not recommending this approach.

Negotiated Sales Method

This approach requires negotiating with a specific number of underwriters and contracting with a specific underwriter who purchases the District's bonds. This method requires shorter filing periods prior to the sale, which would result in the final sale around the week of October 26, 2020. Staff and financial advisors believe there will be significantly less volatility in the markets at the time of this sale.

<u>Cost of Issuance</u>

The cost of issuance under the negotiated method would be slightly reduced in comparison to the competitive method. The negotiated sale method would provide additional flexibility to staff and the finance team during this time of uncertainty surrounding this year's election.

Based on current market conditions, staff believes the negotiated method will yield a true interest cost (TIC) of 1.68% with an average coupon rate of 4.71%, annual cost savings of approximately $206,000, and total present value savings of approximately $3.05 million.

The TIC is the actual cost of issuing a bond, taking into account the present value (time value) of money. It is the rate of interest, compounded semi-annually, that discounts future payments of principal and interest equal to the original purchase price. Due to the Board's rate-setting practices and cash reserve policies, Standard & Poor's rates, the 2020A Revenue bonds at AA+ with a stable outlook. Due to this strong bond rating, no reserve fund or restricted reserves are required.

<u>Strategic Goal</u>

Refunding of the District's outstanding 2011A Bonds achieves Goal Number 1 of the District's Strategic Plan by demonstrating proactive management of our financial resources.

BUDGETARY IMPACT:

Approximate savings of $206,000 annually, beginning in 2021.