

CHRISTIAN VALLEY PARK COMMUNITY SERVICES DISTRICT

STAFF REPORT

DATE: September 14, 2021

TO: Board of Directors

FROM: Don S. Elias, General Manger

RE: CONSIDERATION OF RESOLUTIONS APPROVING, AUTHORIZING AND DIRECTING EXECUTION OF CERTAIN SERIES 2021 CERTIFICATES OF PARTICIPATION, AND APPROVING THE FORMS OF CERTAIN RELATED FINANCING DOCUMENTS FOR THE FINANCING OF THE WATER SYSTEM IMPROVEMENT PROJECT, AND PROVIDING FOR OTHER MATTERS PROPERLY RELATED THERETO

RECOMMENDATION

It is recommended: that the Board of Directors (the “Board”) adopt (i) Resolution No. 2021___, thereby approving the form of all financing documents, and directing staff to work with Bond Counsel and United States of America, Acting through Rural Utility Service, United States Department of Agriculture, California (hereafter referred to as “USDA”) to finalize the issuance of the Series 2021 Certificates of Participation (the “COPs”), the proceeds of which will be used to complete the acquisition and construction of the proposed new water system improvement project, and (ii) Resolution No. 2021___, thereby adopting and approving the USDA Resolution (USDA Form RD 1780-27), as an additional necessary prerequisite to the issuance of the COPs.

BACKGROUND / DISCUSSION

The subject resolutions essentially authorize and approve the form of all the foundational legal documents (the “Financing Documents”) necessary to provide for the successful issuance of the COPs. The adoption of each of the Resolutions is a legal prerequisite to allow for the completion of the appropriate documentation necessary for the USDA/COP finalization. The accompanying Financing Documents comprise a financing structure that is considered standard for California government agencies to legally incur debt secured by water enterprise fund revenues, and is acceptable to USDA, as the purchaser of the COPs. In using this financing structure, an installment sale arrangement must be established with a third-party nonprofit entity experienced in tax-exempt debt transactions in California. The California Municipal Public Financing Authority (the “Authority”) is being recommended as such independent nonprofit entity for this financing transaction. In order to utilize the powers of the Authority, the District must first enter into a non-charter membership agreement as directed pursuant to the authorizing resolution (the “Non-Charter Membership Agreement”).

The COPs will be repaid from Net Revenues of the Water Enterprise. “Net Revenues” means for any Fiscal Year (or other designated twelve (12) calendar month period), the Gross Revenues (i.e., all revenues generated

by the Water Enterprise) during such Fiscal Year (or designated twelve (12) calendar month period) less the Operation and Maintenance Costs during such period.

The proposed COPs are to be issued as limited obligation bonds, payable only from Net Revenues of the Water Enterprise, and therefore the District's general fund, wastewater fund (or any other funds other the water enterprise fund to the extent of Net Revenues) will be not be exposed to repayment risk.

The Financing Documents are being presented to the Board as "form-only documents." The subject resolutions authorize and direct District officers and staff to finalize the Financing Documents as and when appropriate, and to do all things necessary to provide for the issuance of the COPs, which is expected to occur sometime towards the middle of December. This method of approval is the normal method of approving a bond issue.

While the Financing Documents are complex and contain legal terminology, they can be succinctly summarized as follows: the District sells the COPs directly to USDA and uses the proceeds of the COPs, along with the USDA grant component proceeds, to pay off the 2020 Bond Anticipation Notes that were issued by the District to finance the acquisition and construction of the water tank project (the "Project") and pay costs of issuance. Pursuant to the Installment Sale Agreement, the District is "purchasing" the Project from the Authority in exchange for making the semi-annual Installment Payments which are assigned to the "Trust Administrator" (which role is being served by the General Manager), who then makes corresponding semi-annual debt service payments directly to USDA. Based upon the revenue stream of Installment Payments, the District issues the COPs pursuant to the Trust Agreement, which are sold to USDA in exchange for cash to the District. The proposed COPs are structured to be tax-exempt and are pre-payable at any time without penalty.

The draft Financing Documents, and a brief description of each, is as follows:

Installment Sale Agreement: This agreement provides for the sale of the Project to the Authority, and then back to the District in exchange for the District's promise to make future semi-annual Installment Payments to the Authority, which semi-annual payments are commensurate with the debt service on the COPs. This agreement also requires the District to maintain Net Revenues in excess of 115% total annual debt service on the COPs as well as any new parity debt issued in the future. In addition to making the Installment Payments, the District covenants to acquire and construct the Project in accordance with proper plans and specifications, and then to maintain the Project throughout the term of the Installment Sale Agreement, pay taxes, if any, and to maintain various forms of insurance.

Trust Agreement: This document provides for execution and delivery of the COPs to USDA in exchange for proceeds in the par amount thereof, and further establishes the covenants and specifics of the COPs, including (i) the application of proceeds to pay for the reimbursement, acquisition and construction costs of the proposed Project (as well as payment of the costs of issuance for the COPs), (ii) the establishment of a debt service reserve fund, (iii) the establishment of a short-lived assets reserve fund, (iv) the Trust Administrator's duties, (v) repayment mechanisms, (vi) default and remedies provisions, and (vii) the COP Owners (i.e., USDA) rights and remedies.

Assignment Agreement: This document provides the terms and conditions under which the Authority assigns the District's Installment Payments to the Trust Administrator, for ultimate payment to USDA.

Purchase Offer: The District will sell the COPs to USDA pursuant to the terms of the Purchase Offer. The Purchase Offer states the conditions under which USDA will purchase the COPs and requires the District to deliver all the duly authorized and executed documents and opinions at closing. The District also covenants that there is no material litigation against the District which would impair its ability to make Installment Payments or affect the COPs. The sale is scheduled in accordance with the parameters described above.

FISCAL IMPACT

The attached Resolutions authorize the District to issue tax-exempt debt for purposes of completing the take-out financing for the Project. Pursuant to the Installment Sale Agreement, the District promises the owners of the Certificates (i.e., USDA) to annually budget and appropriate from the Water Enterprise Fund sufficient funds to make all Installment Payments pursuant to the Installment Sale Agreement.

ALTERNATIVE(S)

1. Approve the resolutions as presented by Staff.
2. Reject the options as proposed and provide Staff with direction.

ATTACHMENTS

Resolution No. 2021-__
Resolution No. 2021-__
Draft Form of Trust Agreement
Draft Form of Installment Sale Agreement
Draft Form of Assignment Agreement
Draft Form of Purchase Offer
Draft Form of Non-Charter Membership Agreement

NOTE: ALL DOCUMENTS MENTIONED IN THIS STAFF REPORT ARE ON FILE WITH THE DISTRICT SECRETARY'S OFFICE.
