

NHA | **ADVISORS**
Strategy. Innovation. Solutions.

**Palmdale Water District
Financing Options for Construction of the Grade Control
Structure for Little Rock Dam and Other Capital Projects**

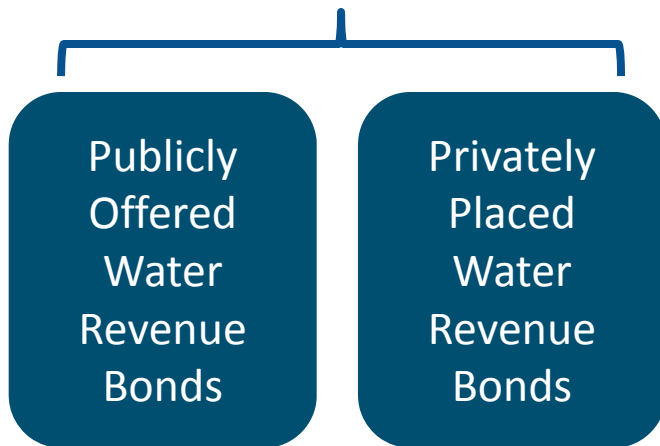
April 23, 2018

Proposed Project Costs

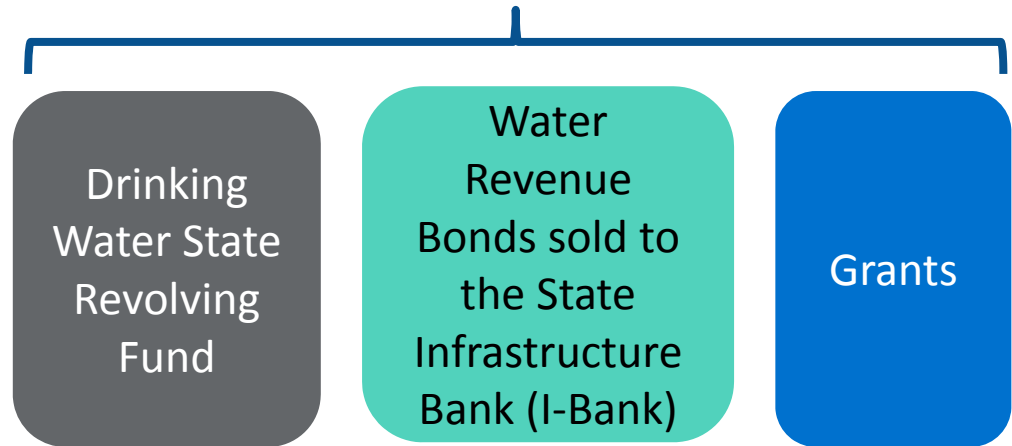
Cost Item	Cost
Soft costs previously incurred by District	\$173,000
Littlerock Grade Control Structure (Specification No. 1802)	\$8,160,257
Water main replacement in area bounded by Avenue P-8, Avenue Q, 3 rd Street East, and Division Street (Specification No. 1206)	\$1,424,112
6.0 million gallon Clearwell at 641 East Avenue S, baffle curtain hangar and replacement project and interior coating rehabilitation	\$1,050,000
Water main replacements in Avenue P at 10 th Street East and 25 th Street East	\$365,500
Water treatment plant improvements	\$2,375,000
TOTAL	\$13,547,869

Available Funding Options

“Traditional” Financing Options



Alternative Financing Options



Public Offered Water Revenue Bonds

- ▶ Lowest interest rate available in the “market”
- ▶ 30 year amortization available
 - ▶ More closely matches useful life than shorter amortizations
 - ▶ Lower annual debt service means less impact on ratepayers
- ▶ District has good credit rating: A- by Standard & Poor’s and an A+ rating from Fitch

Privately Placed Water Revenue Bonds

- ▶ Lower expenses for bond issuance than a public offering
- ▶ 20 year amortization available – shorter than a public offering
- ▶ Since Federal tax reform bill adopted bank private placement rates have increased significantly
 - ▶ Public offering bond market rates are now significantly lower than bank private placement rates
 - ▶ 3.7% on a 30 year public offering
 - ▶ 4.2% on a 20 year private placement

Water Revenue Bonds Sold to I-Bank

- ▶ I-Bank offers issuers interest rates slightly below market, but charges a 0.3% annual administration fee
- ▶ With the annual fee I-Bank interest rates are de facto market rate
- ▶ I-Bank will not guarantee call or prepayment provisions for its borrowers

Drinking Water State Revolving Fund

- ▶ Interest rates are approximately half of current bond market rates
- ▶ 30 year amortization is available
- ▶ Availability of funds is limited
 - ▶ “Disadvantaged communities” are priority for funding
 - ▶ Credit criteria are more strict than Standard & Poor’s

Grants

- ▶ \$7.5 billion in Prop 1 grants is the largest grant funding opportunity for water projects
- ▶ Proposed PWD Littlerock Sediment Removal project is either not eligible under Prop 1, or would be ranked low by the State
- ▶ **Grant funding for this project is consequently not realistic**

Publicly Offered Bonds Are the Recommended Alternative

- ▶ Interest rates and amortization are better or comparable to all alternatives except SRF
- ▶ Funds are readily available now through bond market, unlike SRF
- ▶ Call and prepayment features are guaranteed, unlike I-Bank

Existing Debt Structure

- ▶ The District has three outstanding debt issues:
 - ▶ 2012 refunding of a 1998 COP
 - ▶ \$8.578 million outstanding at issuance
 - ▶ Final maturity of 2023
 - ▶ 2013 Water Revenue Bonds
 - ▶ \$42.685 million outstanding
 - ▶ Final maturity of 2043
 - ▶ Equipment lease
 - ▶ Monthly payments averaging \$180,000 per year through 2022 with a final payment of \$90,000 in 2023
 - ▶ This lease is parity with the 2012 and proposed 2013 debt issues
- ▶ There is no common debt service reserve fund for District parity debt issues
 - ▶ The 2012 refunding has no debt service reserve fund
 - ▶ The 2013 COP has a surety bond with AGM

Bonded Debt Provisions

- ▶ Additional bonds test of 1.1 times based on net revenues
- ▶ Rate covenant of 1.1 times based on net revenues
 - ▶ Rate covenant means that the Board is obligated to use Prop 218 to raise rates sufficient to provide revenues net of operating expenses equal to 110% of annual debt service
 - ▶ District anticipates starting a new 218 process in 2019, that will set maximum rates for the period 2020 through 2024
 - ▶ Rate stabilization fund cash deposits can be used to meet 1.1 times rate covenant
 - ▶ Rate stabilization fund deposits are deducted from pledged revenues in the fiscal year in which they are made

PWD Meets the Additional Bonds Test Requirement

Additional Bonds Test Calculation for Proposed 2018 Bonds

Net Water Revenues "Last audited fiscal year" (FYE 2016)	5,236,688
Net Water Revenues during "...any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period" (Unaudited FYE 2017)	6,586,022
Maximum Annual Debt Service ("MADS") (current)	3,855,525
MADS with proposed 2018 debt	4,643,505
MADS Coverage from FY 2016 Currently	1.36
MADS Coverage from 2016 with 2018 Bonds	1.13
MADS Coverage from FY 2017 Currently	1.71
MADS Coverage from 2017 with 2018 Bonds	1.42

Note: MADS stands for "Maximum Annual Debt Service"

PWD Meets the Rate Covenant Requirement Through At Least 2020 with the Proposed New Bonds

HISTORICAL AND PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE (FYE 12/31)

	Audited	Unaudited	Projected				
	2016	2017	2018	2019	2020	2021	2022
Total Operating Revenues	\$22,586,801	\$23,605,632	\$24,608,871	\$25,654,748	\$25,654,748	\$25,654,748	\$25,654,748
Total Operating Expenses	20,340,658	20,568,747	21,340,427	22,369,550	23,741,959	24,578,476	25,421,038
Net Operating Revenues	2,246,143	3,036,885	3,268,445	3,285,198	1,912,790	1,076,273	233,710
Non-Operating Revenues <i>(Growth Rate)</i>			2%	2%	2%	2%	2%
Ad Valorem Property Taxes ⁽¹⁾	2,189,472	2,289,337	2,335,124	2,381,826	2,429,463	2,478,052	2,527,613
Interest Income ⁽¹⁾	42,729	146,306	146,306	146,306	146,306	146,306	146,306
Capital Improvement Fees ⁽¹⁾⁽⁷⁾	234,747	1,021,406	235,000	235,000	235,000	235,000	235,000
Other ⁽¹⁾⁽⁶⁾⁽¹⁰⁾	523,597	92,088	92,088	92,088	92,088	92,088	92,088
Total Non-Operating Revenues	2,990,545	3,549,137	2,808,518	2,855,220	2,902,857	2,951,446	3,001,007
Net Water Revenue Available for Debt Service	5,236,688	6,586,022	6,076,962	6,140,419	4,815,646	4,027,719	3,234,717
Debt Service							
2012 Installment Purchase Agreement	1,373,697	1,372,785	1,369,593	1,373,241	1,374,152	1,372,329	1,372,329
2013 Water Revenue Bonds	2,345,225	2,350,975	2,351,125	2,345,825	2,345,225	2,348,475	2,350,225
2018 Water Revenue Bonds	-	-	209,518	468,487	468,487	468,487	790,123
Capital Leases	184,459	89,477	178,953	178,953	178,953	178,953	89,476
Total Debt Service	3,903,381	3,813,236	4,109,189	4,366,506	4,366,817	4,368,244	4,602,153
Debt Service Coverage ⁽⁸⁾	1.34x	1.73x	1.48x	1.41x	1.10x	0.92x	0.70x
Rate Stabilization Fund Balance ⁽⁹⁾	480,000	480,000	480,000	480,000	480,000	480,000	480,000
Debt Service Coverage if all Amounts in the Rate Stabilization Fund are used ⁽⁹⁾	1.46x	1.85x	1.60x	1.52x	1.21x	1.03x	0.81x
Net Water Revenues Available after Payment of Debt Service⁽⁸⁾	\$1,333,307	\$2,772,785	\$1,967,773	\$1,773,913	\$448,829	(\$340,525)	(\$1,367,435)

The Financing Plan for the Proposed 2018 Bonds

- ▶ Fund \$13.4 million in project costs
- ▶ 30 year amortization
- ▶ Defer start of principal repayment to 2022 to soften rate impact
- ▶ Re-affirm credit rating with Standard & Poor's
- ▶ Sell bonds through negotiated sale with Piper Jaffray
 - ▶ Bond sale anticipated for Wednesday June 13th