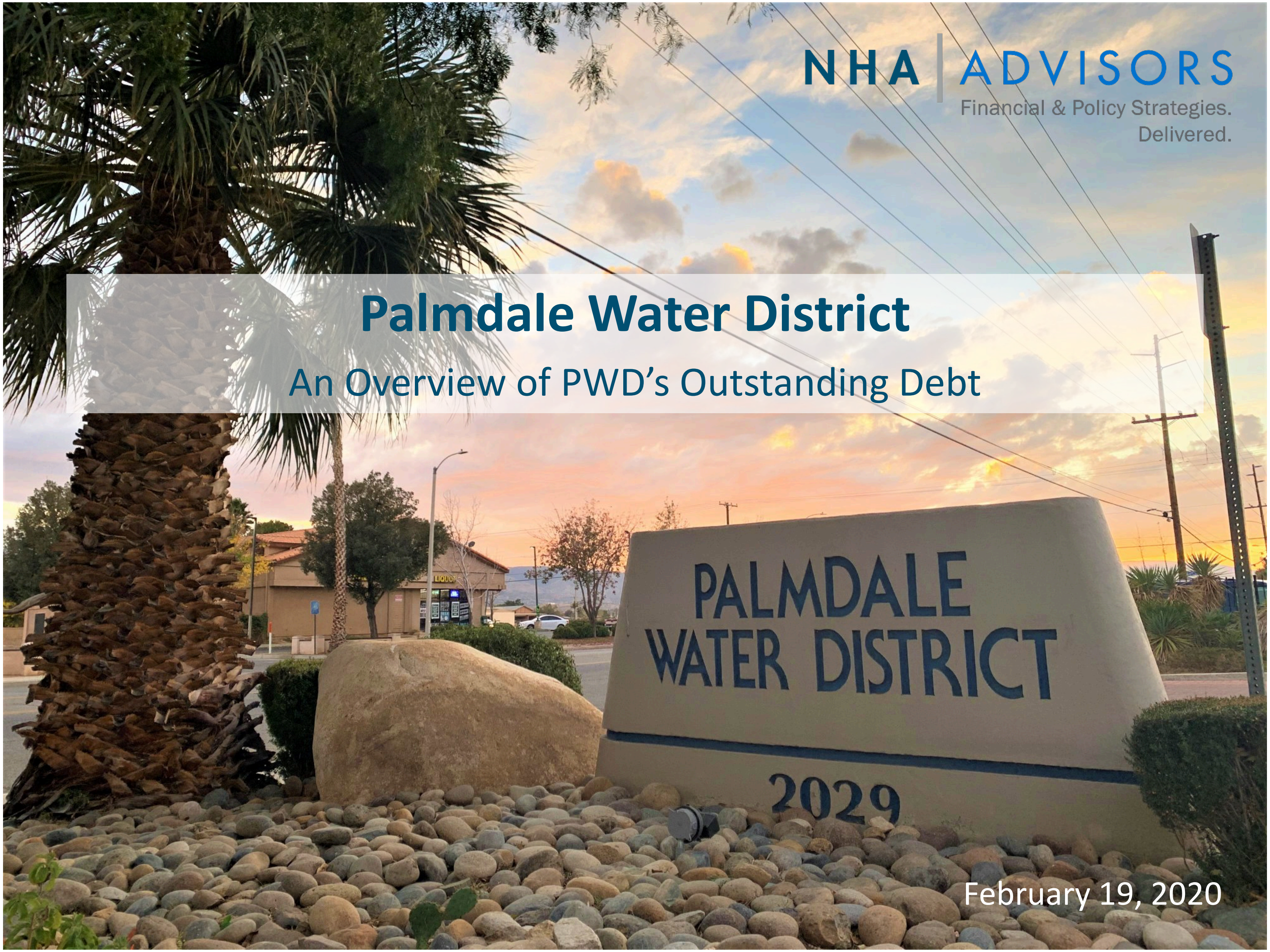
AGENDA ITEM NO. 4.2

NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

Palmdale Water District

An Overview of PWD's Outstanding Debt



February 19, 2020

Table of Contents

WHAT IS A WATER REVENUE BOND?

What is a Water Revenue Bond?

- Water utilities repay their debts with water revenues
- These debts are typically secured by a pledge of the *net* revenues of the water utility
  - Pledged revenues are net of operating expenses for the utility
  - Bond investors realize that the water utility needs to keep operating, regardless of its ability to pay debt service on bonds
- To issue such bonds, utilities must covenant to adjust water rates as required to be sufficient to pay debt service
- Utilities must all covenant to only issue new debt when they have sufficient net revenues to pay the debt service on the new debt

What is a Rate Covenant?

- Through a Rate Covenant, a water utility governing board covenants to adjust water rates sufficient to cover debt service
- This covenant is binding and exists as long as the debt is outstanding
- The District has a Rate Covenant on all of its debt issues
- This covenant provides that District water rates should be sufficient to generate net revenues equal to 110% of debt service
- The District's covenant also provides that surplus cash can be used by the District to meet the Rate Covenant for a given fiscal year
  - The surplus cash so pledged is called a "Rate Stabilization Fund"

What is an Additional Bonds Test?

- An Additional Bonds Test is a covenant made by the District to only issue debt when it has sufficient net revenues to cover that additional debt
- The District's Additional Bonds Test covenant provides that current net revenues of the District must exceed combined maximum annual debt service on outstanding "parity" debt by a 10% margin (1.1 times coverage)
  - Parity debt comprises debt obligations that have an equal "right" to net revenues as the debt proposed to be issued
- Estimated revenues from already approved rate adjustments can be included in an Additional Bonds Test calculation

NHA | ADVISORS
Financial & Policy Strategies. Delivered.

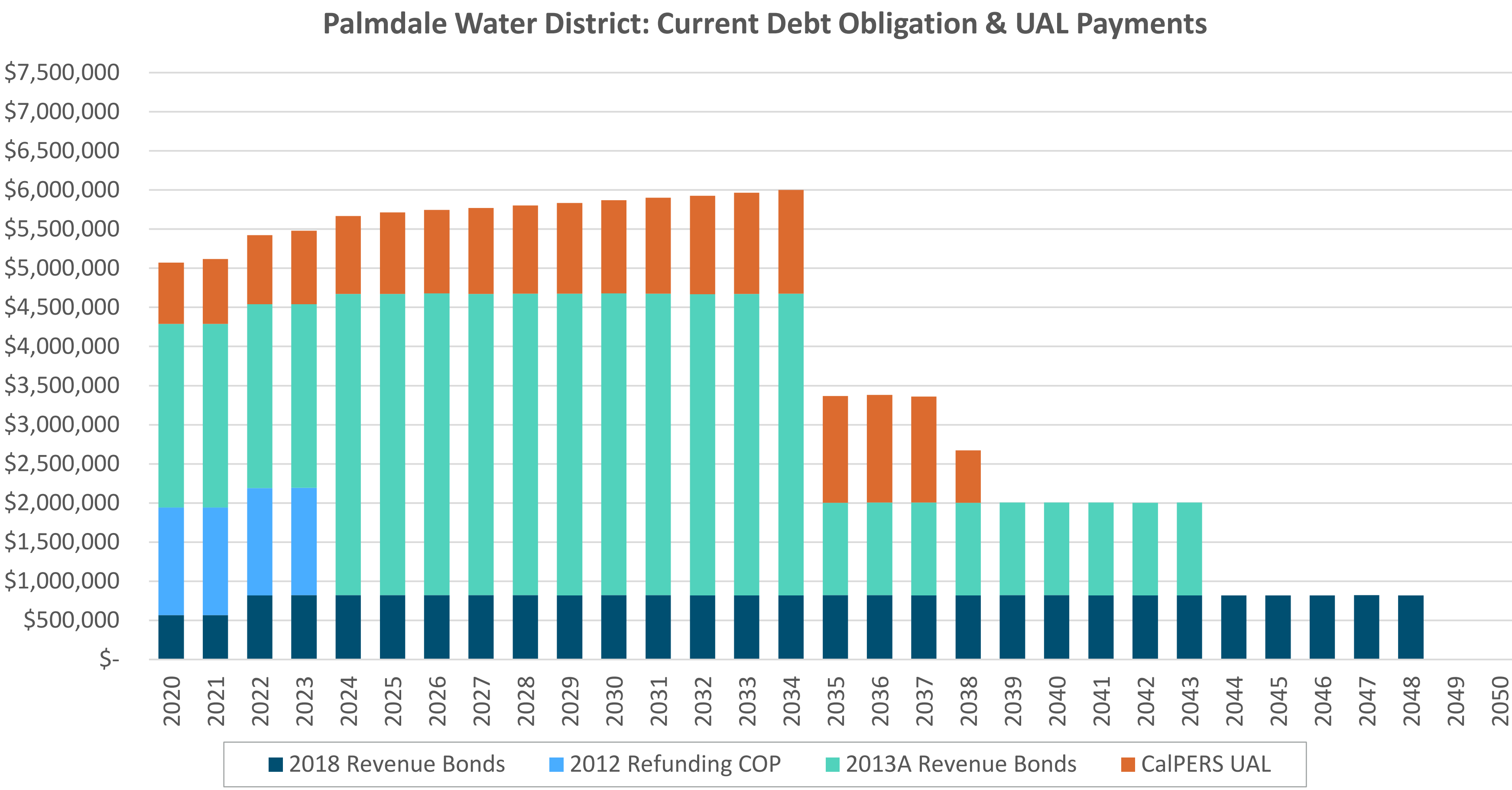
OUTSTANDING DEBTS OF THE WATER DISTRICT

Current Debt Obligations of the District

- The District has three outstanding debt obligations, plus one equipment lease
- Combined, the three debt obligations comprise about $58 million, with a final maturity of 2048
- The lease has outstanding principal of about $530,000 and is paid off in 2022.
- The District's obligation to amortize its unfunded actuarial liability ("UAL")with CalPERS can also be considered a debt
  - The District's UAL is currently about $11 million

Current District Debt and CalPERS Expense Profile

- The District's overall fixed expense profile is "front end loaded"



NHA | ADVISORS
Financial & Policy Strategies. Delivered.

The Benefit of the Recent Rate Study

Benefit of the Recent Rate Study

- 8.1% per year for 5 years, starting in FY 2020
- Includes drought surcharge
  - Drought surcharge is considered a very positive feature by investors
- The significant stabilization in revenues allows the District to consider funding a number of capital projects
  - Additional Bonds Test analysis looks very favorable right now

How the District's Additional Bonds Test Looks After the Recent Rate Study

Revenue and Expense Category	Amount	Source
Estimated 12-month service charges through June 30, 2020	26,158,114	FY 2020 Estimate from Cost of Service Study (Additional bonds test will allow PWD to use this revenue estimate)
Estimated 12-month non-operating revenues through June 30, 2020	3,482,440	December 31, 2018 Continuing Disclosure
Total Pledged Revenues	**29,640,554**	**-**
Estimated 12-month operating expenses through June 30, 2020	23,103,573	FY 2020 estimate from Cost of Service Study
Net Revenues	**7,805,799**	**-**
Combined Max Debt Service	4,678,069	-
Surplus Annual Bonding Capacity at 1.1 times coverage	**1,272,262**	**Generates at least $22 million in new money**

NHA ADVISORS
Financial & Policy Strategies. Delivered.

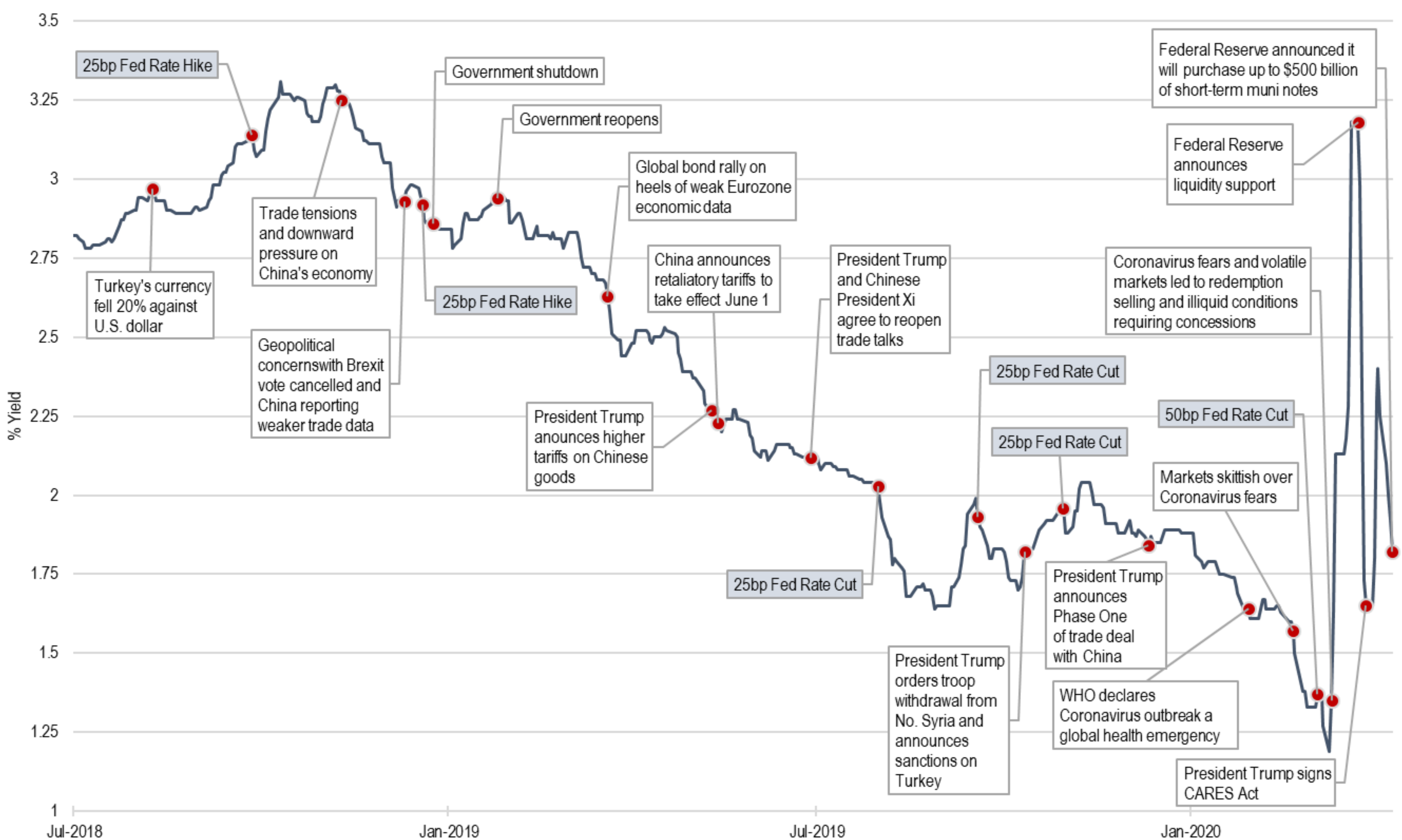
The Process for the District to Issue Debt

How PWD Can Issue New Debt

- Develop a financing plan
- Meet the Additional Bonds Test
- Retain a financing team (financial advisor, bond counsel)
  - If a "public offering", a bond underwriter and a disclosure counsel are also required
  - If a private placement with a commercial bank, underwriter and disclosure counsel are not required
- Majority vote of Board to approve legal documents and authorize financing

A Refinancing Opportunity

Current Interest Rates at Historical Lows



NHA | ADVISORS
Financial & Policy Strategies. Delivered.

A Refinancing Opportunity

- $8.81 million of the District's 2013 bonds are callable now
  - Most new bond issues are sold with "call protection" – meaning that bonds cannot be refinanced or prepaid until the "call date"
  - These bonds carry a 4% interest rate
- These bonds can be refinanced now at an interest rate of approximately 3%, with the same final maturity
  - No extension of debt service
- Annual savings are estimated to range from $40,000 to $70,000 per year (net to the District)
  - Range of savings is a result of current volatility in bond market because of COVID-19
  - Savings are equivalent to a reduction in debt service paid by the District on the refinanced bonds of between 6% and 11%

NHA | ADVISORS

Financial & Policy Strategies. Delivered.

Next Steps

Next Steps – Policy Decisions to Consider

- At present, the refinancing works best as a private placement with a bank
- The District's finance team will prepare a credit review package and send it to multiple banks
- The banks will submit formal bids (lowest interest rate wins) before the end of April, provided the Finance Committee gives approval to proceed
- If the winning bid meets the District's goals, District Board will approve the refinancing at its May 11th Board meeting