

A FINANCING PLAN FOR THE DISTRICT'S CAPITAL IMPROVEMENT PLAN

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Executive Summary

- ▶ PWD has approximately \$30 million in capital projects to fund through 2024
 - ▶ \$20 million to be financed
 - ▶ Total excludes the groundwater recharge project currently under redesign
- ▶ Actual completion of the \$30 million in capital projects will not take place until 2025
 - ▶ Federal rules for issuance of tax exempt debt require debt issuers to have a “reasonable expectation” at the time of issuance that all funds will be spent within 3 years
- ▶ Unspent bond proceeds are also likely to earn significantly less in interest than the interest rate on the bonds
- ▶ Consequently, NHA recommends that the \$20 million of financed capital projects be done through two separate bond issues
 - ▶ First \$10 million issuance in 2021
 - ▶ Second \$10 million issuance in 2023

Near-Term Capital Improvement Program for PWD

Year	Project Budget Requests (Not Committed)	Priority	Category	Project Type	Estimation
Asset/Infrastructure Related Expense					
Pipeline Projects					
2020	Pipeline Design	1	NRCP	New Capital	500,000
2021	Sierra Hwy. Tie-in and Abandonment	1	NRCP	Replacement Cap.	450,000
2021	P @ 10TH (LOCKHEED)	1	NRCP	Replacement Cap.	250,000
2021	Ave. P-12, Division, 2nd, 3rd, Stanridge WM Replacement	1	NRCP	Replacement Cap.	1,341,000
2021	Pipeline with Velocity Deficiency (23 feet of 20" diameter 2800 Zone)	1	Velocity	Replacement Cap.	11,246
2021	2800 Zone Avenue P-8 from 32nd St to 37 St. (2,675 feet of 12" Dia. Pipe)	1	Fireflow	Replacement Cap.	778,655
2022	17TH FR P-4 TO P-8	1	NRCP	Replacement Cap.	352,800
2022	25TH FR P TO P-8	3	NRCP	Replacement Cap.	825,000
2022	CAMARES @ S	3	NRCP	Replacement Cap.	52,500
2022	Ave. Q1, Q2, Q3, Q4, & Q5 @ 5th St. E. Wtr Main Repl. (Spec 1603)		RCP	Replacement Cap.	86,000
2022	Pipeline with Velocity Deficiency (96 feet of 16" diamter 2950 Zone)	2	Velocity	Replacement Cap.	37,240
2022	Ave. Q14 and 15th Street East Water Main Replacement		RCP	Replacement Cap.	56,700
2022	Ave. Q10 and 12th Street East Water Main Replacement		RCP	Replacement Cap.	47,000
2022	2800 Zone Avenue Q-6 between 12St East and 15th St. East (965 feet of 12" Dia. Pipe)	2	Fireflow	Replacement Cap.	280,898
2023	2950 Zone 52nd St North and Fort Tejon Road (1,570 feet of 16" Dia. Pipe)	3	Fireflow	Replacement Cap.	609,340
2023	2950 Zone Avenue S-10 and 40St. East (48 feet of 8" Dia. Pipe)	4	Fireflow	Replacement Cap.	9,315
2023	Pipeline with Velocity Deficiency (1,350 feet of 24" diameter 2800 Zone)	3	Velocity	Replacement Cap.	787,376
2023	Pipeline with Velocity Deficiency (516 feet of 20" diameter 2950 Zone)	4	Velocity	Replacement Cap.	250,533
2023	26th St, Rudall, & 27th St @ Avenue Water Main Replacement		RCP	Replacement Cap.	91,000
2024	FT TEJON	5	NRCP	Replacement Cap.	486,000
2024	20TH FR P-8 TO Q	4	NRCP	Replacement Cap.	810,000
2024	3400 Zone Camares Drive between Sierra Ancha Drive and Avenue S-14 (1,400 feet of 8" Dia. Pipe)	5	Fireflow	Replacement Cap.	271,680
2024	Pipeline with Velocity Deficiency (231 feet of 24" diameter 2950 Zone)	5	Velocity	Replacement Cap.	134,627
				Subtotal:	8,518,910
Well Projects					
2021	Future Well # 36 (2850 Zone, Capacity 2,150 gpm, head of 455 feet, refer to 2016 WSMP, Figure 10-5, FW-04)	5	NRCP	New Capital	3,000,000
2023	New Well # 37	5	NRCP	New Capital	3,000,000
				Subtotal:	6,000,000
Booster Projects					
2022	New Pump to 3600 Zone at 3600 Ft. Booster Pump Station (2016 WSMP, Section 10))	2	NRCP	New Capital	366,553
2022	Fire Pump Deficiency at Existing T-8 Pump Station (Zone 3250)	3	NRCP	Replacement Cap.	937,944
2023	Fire Pump Deficiency at Existing 5MG Booster Pump Station (Zone 3250)	4	NRCP	Replacement Cap.	689,982
				Subtotal:	1,994,479
Water Treatment Plant Projects					
2022	Sedimentation Basin Retrofit	3	NRCP	Asset Improvement	2,000,000
2022	6M Curtains Upgrades				1,500,000
				Subtotal:	3,500,000

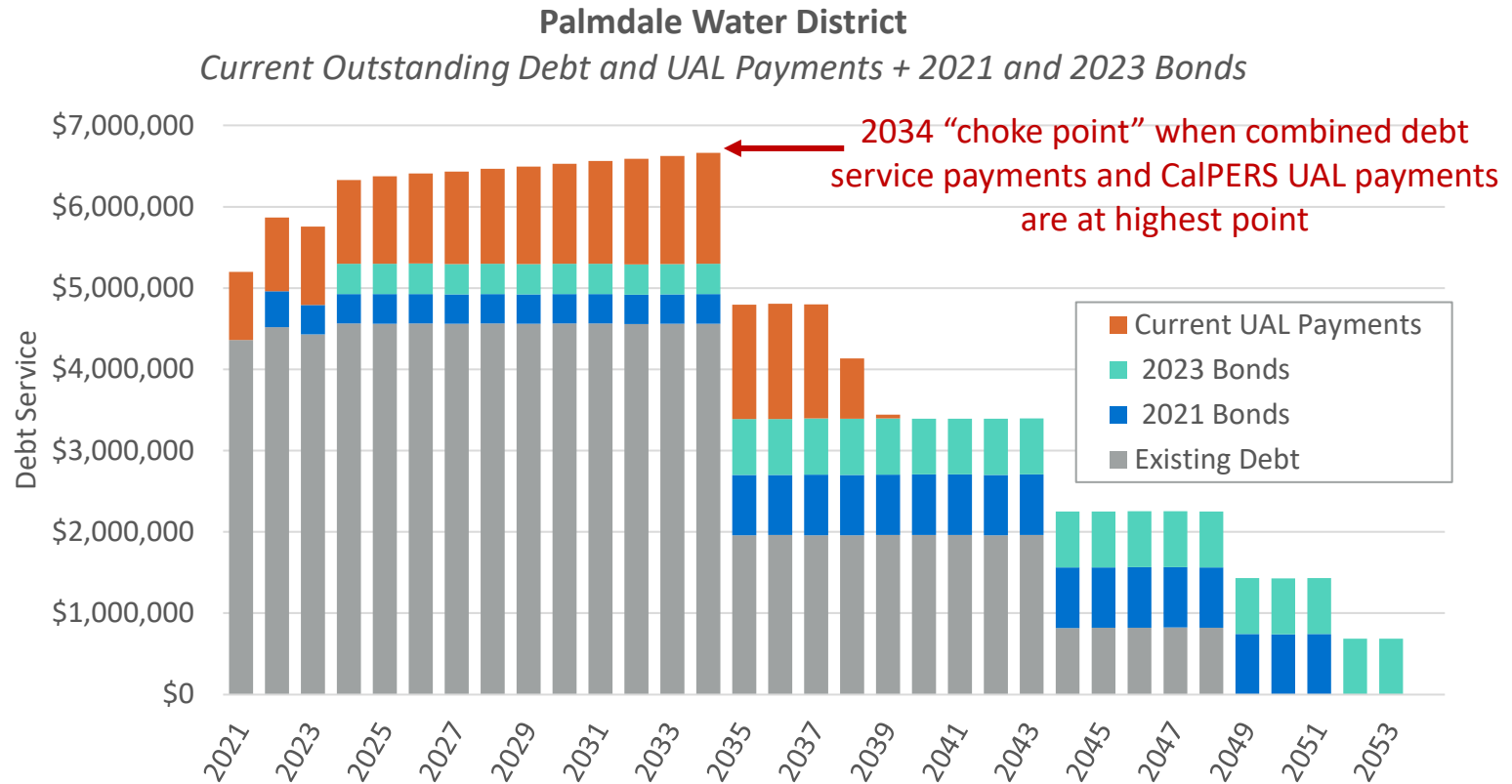
Total Asset/Infrastructure Project Requests 20,013,389

Structuring the Proposed New Debt to Minimize Ratepayer Impact

- ▶ District's combined fixed expenses (debt and CalPERS UAL) have a "choke point" through 2034
- ▶ District's new debt needs to be structured in a way that minimizes the increase in fixed expenses through 2034
- ▶ The best way to do this is for new debt to be interest only through 2034, and begin principal amortization in 2035
- ▶ A 30-year amortization for new debt also minimizes impact on ratepayers
- ▶ Long term fixed interest rates are near historic lows

“Choke Points” in a Debt Structure and Rate Management

- ▶ Choke points are the time periods when the combined interest only payment periods coincide with the highest combined annual debt service cash flow
- ▶ PWD’s CalPERS mandated UAL amortization peak coincides with the high point in PWD’s combined debt structure in 2034
- ▶ District issued \$38 million of bonds in 2004 (refunded in 2013 and 2020) with a 2034 final maturity, which results in significant drop-off in 2035



Historic and Projected Cash Flows for the District With Proposed Debt Issues

	Audited				Estimated	Projected					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Operating Revenues							8.1%	8.1%	8.1%	8.1%	0.0%
Operating Revenues ⁽¹⁾	\$22,586,801	\$23,693,095	\$24,884,078	\$25,165,648	\$27,412,595	\$29,633,015	\$32,033,289	\$34,627,986	\$37,432,853	\$37,432,853	
Extra COVID Delinquencies	-	-	-	-	(226,254)	(226,254)	-	-	-	-	
Rate Stabilization Transfers ⁽⁹⁾	-	-	240,000	(120,757)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	-	
Total Operating Revenues	\$22,586,801	\$23,693,095	\$25,124,078	\$25,044,891	\$27,086,341	\$29,306,761	\$31,933,289	\$34,527,986	\$37,332,853	\$37,432,853	
Operating Expenses							3.1%	3.1%	3.1%	3.1%	3.1%
Gross Operating Expenses ⁽¹⁾	\$22,298,745	\$22,580,982	\$23,863,950	\$24,456,462	\$23,889,877	\$24,630,463	\$25,394,008	\$26,181,222	\$26,992,840	\$27,829,618	
CalPERS Unfunded Liability Payments ⁽²⁾	405,564	472,523	571,885	635,434	790,669	851,851	919,492	979,374	1,041,653	1,089,598	
Overhead Adjustment ⁽¹⁾⁽³⁾	(152,890)	(46,276)	(103,353)	(1,049,246)	(555,875)	(555,875)	(555,875)	(555,875)	(555,875)	(555,875)	
SWP Fixed O&M Expenses ⁽⁴⁾	(86,000)	(26,060)	(22,269)	(22,593)	(38,084)	(42,358)	(40,000)	(40,000)	(40,000)	(40,000)	
Shortfall in SWP Assessments ⁽⁵⁾	-	-	-	-	-	-	-	-	-	-	
Non-cash Related OPEB Expense ⁽⁶⁾	(2,069,452)	(1,384,456)	(959,067)	(864,570)	(1,532,521)	(1,580,029)	(1,629,010)	(1,679,509)	(1,731,574)	(1,785,253)	
Sediment Removal	-	-	-	-	-	-	-	-	-	-	
Total Operating Expenses	20,395,967	21,596,713	23,351,146	23,155,487	22,554,066	23,304,052	24,088,614	24,885,211	25,707,043	26,538,087	
Net Operating Revenues	\$2,190,834	\$2,096,382	\$1,772,932	\$1,889,405	\$4,532,275	\$6,002,710	\$7,844,676	\$9,642,775	\$11,625,810	\$10,894,766	
Non-Operating Revenues											
Ad Valorem Property Taxes ⁽¹⁾	\$2,189,472	\$2,289,337	\$2,436,208	\$2,507,927	\$2,409,433	\$2,457,622	\$2,506,774	\$2,556,910	\$2,608,048	\$2,660,209	
Interest Income ⁽¹⁾	42,729	56,054	292,316	451,831	170,739	170,739	170,739	170,739	170,739	170,739	
Capital Improvement Fees ⁽¹⁾⁽⁷⁾	234,747	1,021,406	106,947	624,101	1,235,438	-	-	-	-	-	
Other ⁽¹⁾⁽⁷⁾	523,597	426,668	646,969	397,531	324,880	324,880	324,880	324,880	324,880	324,880	
Total Non-Operating Revenues	\$2,990,545	\$3,793,465	\$3,482,440	\$3,981,390	\$4,140,490	\$2,953,241	\$3,002,393	\$3,052,529	\$3,103,667	\$3,155,828	
Net Water Revenue Available for Debt Service	\$5,181,379	\$5,889,847	\$5,255,372	\$5,870,795	\$8,672,765	\$8,955,950	\$10,847,069	\$12,695,303	\$14,729,477	\$14,050,594	
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	\$1,373,924	\$ -	\$ -	
2013 Water Revenue Bonds	2,345,225	2,350,975	2,351,125	2,345,825	2,169,025	1,375,575	1,377,325	1,372,575	2,878,475	2,878,125	
Capital Leases	184,459	112,000	178,953	178,953	178,953	178,953	89,477	-	-	-	
2018 Water Revenue Bonds	-	-	146,964	568,894	568,894	568,894	818,894	821,394	820,794	822,044	
2020 Installment Sale Agreement	-	-	-	-	131,681	307,881	307,881	307,881	307,881	307,881	
2020 Water Revenue Refunding Bonds	-	-	-	-	-	555,570	553,990	552,727	556,290	554,305	
2021 Bonds (\$10mm)*	-	-	-	-	-	-	439,185	361,800	361,800	361,800	
2023 Bonds (\$10mm)*	-	-	-	-	-	-	-	-	374,000	374,000	
Total Debt Service	\$3,903,381	\$3,835,760	\$4,046,636	\$4,466,913	\$4,422,706	\$4,359,202	\$4,959,081	\$4,790,301	\$5,299,240	\$5,298,154	
Debt Service Coverage ⁽⁸⁾	1.33x	1.54x	1.30x	1.31x	1.96x	2.05x	2.19x	2.65x	2.78x	2.65x	
Rate Stabilization Fund Balance ⁽⁹⁾	\$481,401	\$486,078	\$244,210	\$369,780	\$469,780	\$569,780	\$669,780	\$769,780	\$869,780	\$869,780	
Debt Service Coverage if All Amounts in the Rate Stabilization Fund are Used ⁽⁹⁾	1.45x	1.66x	1.36x	1.40x	2.07x	2.19x	2.32x	2.81x	2.94x	2.82x	
Net Water Revenues Available after Payment of Debt Service⁽⁸⁾	\$1,277,998	\$2,054,087	\$1,208,736	\$1,403,882	\$4,250,060	\$4,596,748	\$5,887,988	\$7,905,003	\$9,430,237	\$8,752,440	

COVID-19 and Other Credit Rating Questions

- ▶ District's COVID-19 related delinquencies are “normal” for California water utilities
- ▶ While S&P Global Ratings did not upgrade the District's rating from “A-” last year, it assigned a “positive outlook” to the credit rating
 - ▶ The positive outlook means that a rating upgrade is now more likely
- ▶ Our plan is to stress the excellent financial management of the District to S&P during the rating review process for the proposed new bond issues
 - ▶ The District now has 1+ years of financial operating history since the rate increase went into effect

Comparable COVID- 19 Delinquencies for Other Water Utilities

Agency	Type of Debt	Current Credit Rating	Delinquency Amount	Notes	Length of Time Payments Have Been Delinquent	Notes	Delinquency Rate	Notes	Median Household Income	Notes
Palmdale WD	Water	A- (S&P)	\$501,712	<i>Source: Mark Northcross / PWD conversation. See Source Data tab for more detail</i>	60 or more days	<i>Note: This delinquency definition is explicitly stated in the source. Source: Mark Northcross / PWD conversation. See Source Data tab for more detail</i>	1.83%	<i>Note: Calculated as (delinquency amount / 2020 total amount billed). We can also divide by CY 2021 budgeted water fund operating revenues (\$29,408,961), for consistency if desired. Source: Mark Northcross / PWD conversation. 2020 Total Amount Billed: \$27,412,595 (See Source Data)</i>	\$62,865	<i>Source: U.S. Census Bureau (Palmdale 2019 ACS 5-year Estimates)</i>
Oxnard	Water	A- (S&P)	\$400,000	<i>Note: Projected delinquent fees and penalties for FY 2021. Source: Oxnard 2/2/2021 City Council Agenda Packet (PDF pg. 432)</i>	More than 21 days	<i>Note: A payment not made for more than 21 days is Oxnard's standard delinquency definition. I assume that this is the delinquency definition the City used in calculating its Delinquency Amount. Source: Oxnard 2021A Water Revenue Bonds OS (OS pg. 31)</i>	0.65%	<i>Note: Calculated as (delinquency amount / FY 2021 Budget water operating fund revenue). The water operating fund revenue used in the calculation (\$61,206,929) has been reduced by about \$2M to account for Oxnard budget changes due to COVID . Source: 2/2/2021 CC Agenda Packet (PDF pg. 432)</i>	\$72,843	<i>Source: U.S. Census Bureau (Oxnard 2019 ACS 5-year Estimates)</i>
Cucamonga Valley WD	Water	AA+ (S&P) / AA (Fitch)	\$825,579	<i>Note: As of 1/1/2021. 11% of accounts receivable are delinquent. Delinquency amount includes delinquencies from wastewater services. Source: CVWD 3/23/2021 Agenda -- 2021 Water Revenue Ref Bonds POS</i>	More than 60 days	<i>Note: This delinquency definition is explicitly stated in the source. Source: CVWD 3/23/2021 Agenda Packet (PDF pg. 286)</i>	1.01%	<i>Note: Calculated as (delinquency amount / 2021 budgeted water fund operating revenues). Source: 2021 Budget Projected Water Fund Operating Revenues: \$81,657,272</i>	\$90,953	<i>Source: U.S. Census Bureau (Rancho Cucamonga 2019 ACS 5-year Estimates)</i>
Eastern MWD	Water	AA+ (S&P)	\$4,300,000	<i>Note: Total accounts receivable over 60 days, as of 1/6/2021. Source: EMWD 1/6/2021 Agenda Packet (PDF pg. 383)</i>	More than 60 days	<i>Note: This delinquency definition is explicitly stated in the source. Source: EMWD 1/6/2021 Agenda Packet (PDF pg. 383)</i>	2.75%	<i>Note: Calculated as (delinquency amount / FY 2021 budgeted water service revenues). Source: FY 2020-21 Budget Projected Water Service Revenues: \$156,529,499</i>	\$70,714	<i>Note: Calculated as the median of the median household incomes of Temecula, Perris, and Moreno Valley. The median value was Perris. Source: U.S. Census Bureau (Perris 2019 ACS 5-year Estimates)</i>
Las Virgenes MWD	Water	AA (S&P)	\$515,602	<i>Note: As of 4/16/2021. 919 delinquent accounts (4.32% of total accounts). Source: LVMWD 4/20/2021 Agenda Packet Item 7A (pg. 1).</i>	More than 32 days	<i>Note: This delinquency definition is explicitly stated in the source. Source: LVMWD 4/20/2021 Agenda Packet Item 7A (pg. 1)</i>	1.19%	<i>Note: Calculated as (delinquency amount / FY 2021 budgeted water operating revenues). In 4/20/2021 Agenda Packet Item 7A, Total Sales YTD = \$18,199,350.01, which produces a YTD delinquency rate of 2.83%. Source: 2021 Budget Projected Water Operating Revenues: \$43,329,067.</i>	\$133,332	<i>Note: Calculated as the median of median household incomes of Agoura Hills, Hidden Hills, Calabasas, and Westlake Village. Source: U.S. Census Bureau 2019 ACS 5-year Estimates</i>
Morgan Hill	Sewer	AA (S&P)	\$130,000	<i>Note: As of 11/2020. 500 delinquent accounts. Source: Morgan Hill 2020 Sewer Revenue Bonds OS (OS pg. 17)</i>	More than 25 days	<i>Note: A payment not made for more than 25 days is Morgan Hill's standard delinquency definition. I assume that this is the delinquency definition the City used in calculating its Delinquency Amount. Source: Morgan Hill 2020 Sewer Revenue Bonds OS (OS pg. 27)</i>	0.98%	<i>Note: Calculated as (delinquency amount / 2020-2021 budgeted sewer operations revenues). Source: 2020-2021 Budget Projected Sewer Operations Revenues: \$13,276,826</i>	\$124,419	<i>Source: U.S. Census Bureau (Morgan Hill 2019 ACS 5-year Estimates)</i>

Bond Underwriter Selection

- ▶ NHA sent out RFQs to 6 bond underwriting firms
- ▶ 5 responses were received:
 - ▶ D.A. Davidson
 - ▶ Hilltop Securities
 - ▶ J.P. Morgan
 - ▶ Piper Sandler
 - ▶ Stifel
- ▶ NHA recommends Hilltop Securities
 - ▶ Near low bid
 - ▶ Worked with District before on private placements
 - ▶ Strong experience in water utilities
 - ▶ Good suggestions on getting a credit rating upgrade and structuring/marketing the proposed new bond issues

Proposed Schedule

- ▶ Wednesday, May 19th – Present financing plan to Finance Committee
- ▶ Week of June 7th – Credit rating presentation to S&P Global Ratings
- ▶ Monday, June 14th – District Board approves legal documents for first bond issue
- ▶ Tuesday, June 29th – Sell bonds
- ▶ Wednesday, July 14th - Close bond issue