

PALMDALE WATER DISTRICT

A SUMMARY OF THE BID RESULTS FOR THE DISTRICT'S POTENTIAL REFINANCING

NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

April 29, 2020

Executive Summary

- ▶ We received one “hard” bid from Western Alliance Bank
 - ▶ Their bid was a fixed rate of 3.21%
- ▶ We received two “soft” bids from First Foundation and Sunflower Bank
 - ▶ Because the soft bids would have been significantly higher than what we thought would be acceptable to the District, placement agent advised banks not to bid
- ▶ The Western Alliance Bank interest rate is not locked until two weeks prior to closing
 - ▶ We have a tentative agreement with the bank to close as early as May 19th
- ▶ Western Alliance Bank won the bid on the 2012 refinancing of District bonds
 - ▶ Bank of Nevada, a subsidiary of Western Alliance Bank, is the District’s counter party on that loan

A Summary of the Winning Bid

Bidder	Western Alliance Bank	Same winning bidder as on 2012 refinancing. (Bank of Nevada is a subsidiary)
Interest Rate	3.21%	Interest rate is calculated by formula prior to lock: 77% of the sum of the 20 year LIBOR swap rate plus 3.4%
Rate lock now	No	The rate lock is 2 weeks prior to closing.
Closing expenses	\$10,000	Squire Patton Boggs is bank counsel. We do not want to incur these expenses until after rate lock
Call feature	October 1, 2030@100%	

- ▶ The interest rate will fluctuate until the rate is locked (following Board approval of the refinancing)
- ▶ Given recent market volatility in the 20-year LIBOR swap rate (shown below), locking the interest rate as soon as possible will reduce interest rate risk



A Comparison of Bid Results

Bank Contacted	Bid	Bid Interest Rate	Reason for not bidding
Western Alliance Bank	Yes	3.21%	
Bank of the West	No	none	Final maturity too long
BCI Capital	No	none	Bank not bidding any muni transactions now
BBVA	No	none	Final maturity too long
California Bank	No	none	Final maturity too long
Capital One	No	none	Final maturity too long
Chase/JP Morgan	No	none	Final maturity too long
First Foundation	No	none	Cannot go below 3.5%
Flagstar Bank	No	none	Bank not bidding any muni transactions now
Municipal Finance	No	none	Final maturity too long
Pinnacle Public Finance	No	none	Final maturity too long
Signature Bank	No	none	Final maturity too long
Sterling Bank	No	none	Final maturity too long
Sunflower Bank	No	none	Would be higher than 3.5%
Umpqua Bank	No	none	Bank only bids for current municipal clients

- ▶ Bank demand for municipal bonds has been significantly reduced because of the need to process the record volume from SBA Payroll Protection Program loans

Comparative Savings Cash Flows – Three Scenarios

Annual Cash Flow Savings by Scenario			
FY Ending	March 26 Private Placement Estimate	Public Offering as of April 24th	Western Alliance Bank Bid on April 24th
2021	76,406	79,153	46,832
2022	76,948	40,462	46,832
2023	76,948	40,462	46,832
2024	76,948	40,462	46,832
2025	76,948	40,462	46,832
2026	76,948	40,462	46,832
2027	76,948	40,462	46,832
2028	76,948	40,462	46,832
2029	76,948	40,462	46,832
2030	76,948	40,462	46,832
2031	76,948	40,462	46,832
2032	76,948	40,462	46,832
2033	76,948	40,462	46,832
2034	76,948	40,462	46,832
2035	76,948	30,462	46,832
2036	76,948	30,962	46,832
2037	76,948	29,762	46,832
2038	76,948	29,412	46,832
2039	76,948	31,312	46,832
2040	76,948	27,562	46,832
2041	76,948	28,262	46,832
2042	76,948	30,812	46,832
2043	76,948	27,737	46,832
2044	76,948	29,200	46,832
Total	\$ 1,846,206	\$ 900,642	\$ 1,123,968
Net Present Value at 3% Discount Rate	\$ 1,302,627	\$ 661,564	\$ 793,125
Net Present Value as a % of Current Outstanding Par	14.8%	7.5%	9.0%

- ▶ While bid results are significantly less than what was estimated in March, the savings are still strong
- ▶ A public offering under current market conditions would result in the lowest level of savings to the District
- ▶ Net present value savings is the value in today's dollars of all the future savings from the refinancing

Should the District Accept the Bid?

- ▶ A rule of thumb for municipal bond refinancings:
 - ▶ If the net present value savings are less than 3% of outstanding principal, the public agency should only do the refinancing for legal or political reasons
 - ▶ If the net present value savings are greater than 5% of outstanding principal, the public agency should do the refinancing unless there are legal or political reasons not to do it
 - ▶ Net present value savings between 3% and 5% is a “gray area”
 - ▶ There may be legal, political, or other reasons to undertake a refinancing
- ▶ With net present value savings of 9%, the District should accept the bid and do the refinancing unless there are legal or political reasons to not do it
 - ▶ We are not aware of any legal or political reasons to not do the refinancing

Next Steps

- ▶ Finance Committee gives direction at its May 5th meeting
- ▶ If the Finance Committee supports the refinancing, Board approves legal documents at its May 11th meeting
- ▶ Rate is locked by bank on May 12th
- ▶ Refinancing is closed before the end of May, and hopefully by May 19th