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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

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"

Projected to Meet Rate Covenant Requirement Through 2020 with the Proposed New Bonds

HISTORICAL AND PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE

	Audited	Unaudited	Projected						
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Operating Revenues ⁽¹⁾	\$22,586,801	\$23,605,632	\$24,608,871	\$25,654,748	\$25,654,748	\$25,654,748	\$25,654,748	\$25,654,748	\$25,654,748
Total Operating Expenses ⁽²⁾	\$20,340,658	\$20,568,747	\$21,340,427	\$22,369,550	\$23,741,959	\$24,578,476	\$25,421,038	\$26,063,377	\$26,892,744
Net Operating Revenues	\$2,246,143	3,036,885	3,268,445	3,285,198	1,912,790	1,076,273	233,710	(408,629)	(1,237,995)
Non-Operating Revenues (<i>Growth Rate</i>)			2%	2%	2%	2%	2%	2%	2%
<i>Ad Valorem</i> Property Taxes	\$2,189,472	2,289,337	2,335,124	2,381,826	2,429,463	2,478,052	2,527,613	2,578,165	2,629,729
Interest Income	42,729	146,306	146,306	146,306	146,306	146,306	146,306	146,306	146,306
Capital Improvement Fees	234,747	1,021,406	235,000	235,000	235,000	235,000	235,000	235,000	235,000
Other	523,597	92,088	92,088	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	3,051,559	3,103,123
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	2,642,930	1,865,127
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	2,345,225	2,348,475	2,350,225	2,345,475	3,851,375
2018 Water Revenue Bonds	-	-	209,518	468,487	468,487	468,487	790,123	788,063	790,355
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	4,507,462	4,641,730
Debt Service Coverage	1.34x	1.73x	1.48x	1.41x	1.10x	0.92x	0.70x	0.59x	0.40x
Rate Stabilization Fund Balance	\$480,000	480,000	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	1.46x	1.85x	1.60x	1.52x	1.21x	1.03x	0.81x	0.69x	0.51x
Estimated-pay-as-you-go capital expenditures	-	-	-	-	-	-	-	-	-
Net Water Revenues Available after Payment of Debt Service	\$1,333,307	2,772,785	1,967,773	1,773,913	448,829	(340,525)	(1,367,435)	(1,864,532)	(2,776,603)

(1) Assumes 4.25% Operating Revenue growth in FYE 2018 and 2019, 0% growth FYE 2020 through FYE 2024

(2) Assumes 3% annual growth in gross operating expenses FYE 2018 - 2024

Projected to Experience Negative Cash Flows with Pay-As-You-Go Capital Improvements

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Non-Operating Revenues <i>(Growth Rate)</i>			2%	2%	2%	2%	2%	2%	2%
<i>Ad Valorem</i> Property Taxes	\$2,189,472	2,289,337	2,335,124	2,381,826	2,429,463	2,478,052	2,527,613	2,578,165	2,629,729
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Other	523,597	92,088	92,088	92,088	92,088	92,088	92,088	92,088	92,088
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Estimated-pay-as-you-go capital expenditures	-	-	-	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Net Water Revenues Available after Payment of Debt Service	\$1,333,307	2,772,785	1,967,773	273,913	(1,051,171)	(1,840,525)	(2,867,435)	(3,364,532)	(4,276,603)

(1) Assumes 4.25% Operating Revenue growth in FYE 2018 and 2019, 0% growth FYE 2020 through FYE 2024

(2) Assumes 3% annual growth in gross operating expenses FYE 2018 - 2024

Estimated Rate Increase Required by FY 2022

Very preliminary: This table makes no provision to maintain current cash balance or to provide funding for additional projects on a pay-as-you-go basis

Calculating Estimated Rate Increase by FY 2022	
Projected Net Revenues in FY 2022	3,234,717
Projected annual debt service in FY 2022	4,602,153
Required coverage ratio	1.10
Total Net Revenues Required	5,062,368
Increase in Net Revenues Required	1,827,651
Gross Operating Revenues in FY 2022	25,654,748
Cumulative total percentage increase in water service charges required by FY 2022	7.12%

Breakdown of Operating Expense Increases

- ▶ FY 2017 Operating Expenses: \$20,568,747
- ▶ Projected FY 2022 Operating Expenses: \$25,421,038

Increase in Expense from FYE 2017 – FYE 2022		
	Amount Change	% Change (Relative to Total Increase)
Increase in CalPERS UAAL amortization	\$616,987	12.7%
Increase in sediment removal costs	\$636,540	13.1%
Increase in debt service costs	\$788,917	16.3%
All other cost increases	\$2,809,847	57.9%
Total increase in Operating Expenses	\$4,852,291	100%

Cashflows Assuming 3% Annual Rate Increase (FYE 2020 – 2024)

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Total Operating Revenues ⁽¹⁾	\$22,586,801	\$23,605,632	\$24,608,871	\$25,654,748	\$26,424,391	\$27,217,123	\$28,033,636	\$28,874,645	\$29,740,885
Total Operating Expenses ⁽²⁾	\$20,340,658	\$20,568,747	\$21,340,427	\$22,369,550	\$23,741,959	\$24,578,476	\$25,421,038	\$26,063,377	\$26,892,744
Net Operating Revenues	\$2,246,143	3,036,885	3,268,445	3,285,198	2,682,432	2,638,647	2,612,598	2,811,268	2,848,141
Non-Operating Revenues <i>(Growth Rate)</i>			2%	2%	2%	2%	2%	2%	2%
Ad Valorem Property Taxes	\$2,189,472	2,289,337	2,335,124	2,381,826	2,429,463	2,478,052	2,527,613	2,578,165	2,629,729
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Net Water Revenues Available after Payment of Debt Service	\$1,333,307	2,772,785	1,967,773	1,773,913	1,218,472	1,221,849	1,011,452	1,355,365	1,309,534

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