

MEMORANDUM

DATE: August 2, 2021

TO: Ted Corrigan, CEO and General Manager

FROM: Amy Kahler, Chief Financial Officer

SUBJECT: Refunding Series 2012B Water Revenue Bonds

Background

In 2012, Des Moines Water Works (DMWW) issued \$39.4 million in water revenue bonds, known as Series 2012B. This bond issuance was actually a refunding (i.e., refinancing) of a 2006 bond issuance. The original 2006 bonds were issued by DMWW to construct Saylorville Water Treatment Plant and the Joint Eastside Tank. Several wholesale customers purchased capacity in DMWW's Core Network when Saylorville was constructed and, in lieu of paying cash or issuing bonds on their own, these wholesale customers chose to participate in DMWW's bond issuance. Approximately 70% of the bond amount is the responsibility of these wholesale participants. The remaining 30% is the obligation of two of our Total Service areas, Pleasant Hill and Polk County. The bonds mature on December 1, 2025 and are callable later this year on December 1, 2021, meaning they can be paid off or refinanced. The remaining principal after our December 1, 2021 scheduled payment will be \$12.35 million.

Series 2012B Water Revenue Bond Refunding

Our bond advisor, Speer Financial, Inc. monitors the outstanding issues of all their clients on a regular basis to determine if refinancing might be desirable. Speer's analysis of our Series 2012B bonds indicates that refinancing later this year could result in a net present value savings to our customers of approximately \$330k due to lower interest rates.

Regionalization Considerations

It is important to note that if a refunding is pursued, the maturity date of the new bonds would remain the same as the refunded bonds, which is December 1, 2025. Regionalization discussions related to the timing of asset transfer have considered the 2025 maturity date and have favored that production assets would transfer about five years after the creation of the regional board. Therefore, even under the most optimistic commencement date for a regional utility (say, January 1, 2022), the same 2025 maturity of the new bonds would not interfere with regional asset transfer considerations under this assumed 5-year timeline.

Maggie Burger, Senior Vice President of Speer Financial, has provided the attached memo outlining the business case and process for refunding the 2012B bonds. Staff will further discuss the option and process at the August 10, 2021 Finance & Audit Committee meeting.

August 10, 2021

To: Amy Kahler, Chief Financial Officer, Des Moines Water Works
 From: Maggie Burger, Sr. Vice President, Speer Financial, Inc.
 Re: Current Refunding Opportunity – Water Revenue Bonds, Series 2012B

The Des Moines Water Works (the “Water Works”) has the opportunity on December 1, 2021 to currently refund one of the outstanding bonds, the Water Revenue Bonds, Series 2012B. The 2012B bonds have a final maturity on December 1, 2025.

The Water Works’ outstanding Water Revenue Bonds, Series 2012B are paid by multiple entities in the greater Des Moines area. Those entities include: Ankeny, Bondurant, Urbandale, West Des Moines and Des Moines Water Works (including Pleasant Hill and SE Polk). The following chart show the amounts owed by each entity:

Des Moines Water Works
Water Revenue Refunding Bonds, Series 2012B
Optional Redemption 12/1/2021

Entity	Total Outstanding as of 12/1/2021
Ankeny	\$ 3,218,840
Bondurant	\$ 264,040
Urbandale Water Utility	\$ 3,692,493
Waukee	\$ -
West Des Moines Water Works	\$ 1,039,529
DMWW	\$ 60,220
Pleasant Hill (paid by DMWW)	\$ 2,204,824
SE Polk (paid by DMWW)	\$ 1,870,054
TOTAL	\$ 12,350,000

DMWW also holds a Debt Service Reserve Fund (the “DSRF”) for the 2012B bonds in the amount of \$3,940,000. At the time of a refunding, the DSRF may be reduced to properly reflect the sizing of the existing debt being refunded; therefore, we anticipate this new DSRF amount would be approximately \$954,000. The DSRF being released (approx. \$2.9 million) would reduce the size of issuance to be refunded (meaning the Water Works must use that approx. \$2.9 million cash to buy down the size of the new debt). We estimate this savings, along with a reduction of interest rates, could approximate \$3.4 million over the next four years. Without the calculation of the DSRF release, we anticipate there is still more than \$330,000 in overall net savings.

The process of beginning a refunding of this size begins with documents from Bond Counsel, Ahlers & Cooney, to set a date of Public Hearing on a “not to exceed” amount. We would want to set the date of the public hearing at your August Board meeting. The September board meeting is when you would hold the public hearing. Throughout this time and up until issuance, Speer will continue to monitor the bond market, confirming that the market rates still make sense for the Water Works to continue forward with the refunding for savings purposes. Additionally, throughout this process we would like to work with the other entities that pay for this bond to discuss their option of a partial or full payoff of their portion of the debt. We would work with those entities and their financial advisors and bring to the Water Works a recommendation for the final issuance amount based on the results of the financial plans of the other entities.

Once the issuance amount is determined, Speer would work to sell the bonds for the Water Works in one of three different opportunities: i) competitive bond sale (DMWW has typically followed this path in the past), ii) negotiated bond sale, or iii) private placement bond sale. All three have been successful methods for our clients over the last five years for the sale of revenue bonds and we would help you determine what is the best method at that time for the Water Works. We would not extend the term of the new bonds beyond the original maturity date of December 1, 2025.

The process and timing of the refunding is being aligned with the optional redemption date of 12/1/2021. If any of the entities paying on these bonds choose to pay off or pay down their portions of debt, we would need to work with those entities for their pre-payment amounts prior to the Water Works refunding the existing debt so you would be guaranteed to have those dollars in hand for a December 1, 2021 redemption.

The public hearing is step 1 of the process, and the process can be terminated at any time prior to issuance if the market changes or the Water Works changes its mind on the refunding. Proceeding with the public hearing gives Water Works a path forward to potentially save money for your customers.

We should also note that on December 1, 2021, the Water Revenue Bonds, Series 2012A are also able to be redeemed in whole or part, with cash or refunding bonds. The interest rates on the 2012A bonds are lower than the 2012B series, and the final maturity date of the 2012A bonds is December 1, 2023 which is only 2 years away. Both of these considerations make this issuance an unlikely candidate for a refunding. We will continue to monitor the market as it relates to the 2012A bond; however, we believe the cost of issuance of a refunding may offset the savings on the 2012A bonds to a level such that we would not recommend refunding the 2012A series.